Plastics

Raw materials move into more predictable phase

by Rae Mazengarb

WHILE skyrocketing raw material prices and serious supply problems threw the plastics industry into confusion last year, 1980 should present a more predictable supply and price situation.

And raw materials representative on PINZ Brian Pickering predicts prices will move by 10-20 per cent through the year.

But some materials should remain in tight supply, he said, the most noticeable at present being high density polyethylene, which seems very close to a balance between supply and demand.

Any shortfall on our local scene could be made up from supplies which are available from less traditional sources – but at higher price levels.

Supply of low density polyethylene has eased compared with last year, but has settled in close behind HDPe with prices once again firm, Pickering said.

Polypropylene homo polymer enjoys the easiest supply situation, mainly because of the new plants coming on-stream in Australia, but even in this case there is no sign of prices easing.

PVC resin supply levels are expected to be similar to 1979 and prices remain stable as we move into the second quarter.

This will reflect the PVC compound supply and price situation. Generally, oil prices may be expected to rise and other costs should increase.

Freight rates, wages, high inflation and interest rates all take their toll, and it is to be expected that these will be passed on into the prices to be paid for raw materials.

While some prices have been stable for the past few months, assuming no major upsets and the supply and demand balance remains as expected, prices should move a further 10-20 per cent through 1980.

This does assume, however, that Opec prices move no more than 10 per cent.

Pickering said that in general, there is a fairly close balance between supply and demand, and therefore prices would remain relatively firm.

But there are other contingencies. Because of the increasing value of the American dollar – and most raw materials are purchased with it – there has been a recent price increase, though not a substantial one.

Manufacturers in some sectors are still reporting difficulty in providing stable prices for finished products. They say that some raw material suppliers have not been prepared to quote prices too far beyond one to three months ahead.

T & I checks out feasibility of taxing packaging

by Rae Mazengarb

THE Department of Trade and Industry together with the Commission for the Environment, is investigating the feasibility of a package tax system on retail beverage containers, paper products and lubricating oils.

But officials do not want to talk about it yet; rather they say it is still an "in-house" matter, and they propose to produce a document for "wide discussion" around July this year.

Yet the issue is worrying the New Zealand Litter Control Council (Inc), since the question of taxes on packaging materials was the very basis on which manufacturers originally agreed to voluntarily support the council.

They felt that voluntary support, by way of membership subscription, was far preferable to taxes on packaging.

So the council, which is supported by the Ministry of Internal Affairs, is naturally concerned about the possibility of a departure from the system.

But without full knowledge of what is behind the investigation, it is not willing to over-react.

Executive director Alistair Miller said: "We won't know the full implications until we see the report." But he said, the concept being discussed is "fraught with problems".

The council's main concern was that it had raised funds on a voluntary basis, and industry had responded.

A system such as a product charge not only has repercussions for the customer, but implies a double tax system.

"We believe the market should set its own price, if recycling costs are to be incorporated into production," Miller said.

Chairman of the Industry Committee on the council, David Irving, also commented that a voluntary basis created a "caring role".

Litter Control Council members tended to associate themselves with treating the problem of waste disposal. A move to a compulsory taxation system would damage this involvement, he said.

The tax also has implications for the ratepayer – who already pays a contribution toward waste disposal. A further charge at the retail end is viewed as iniquitous.

Economist Dennis Rose has already been contracted to undertake a feasibility study, and has visited several companies involved in packaging to discuss the matter.

Watties Industries, for example, have been told that a product charge of $20-$50 per tonne for tin plate would be appropriate under the tax system envisaged.

This works out at about 6.5 per cent of the cost, of tin plate and by the time the cost is passed on to the retail level, it would mean an effective increase of 15 per cent on retail prices.

Terms of reference for the preparation of the discussion document are:

- Discussion of the product charge concept and other economic instruments for improving waste management;
- Description of overseas investigations into the concept and other existing or proposed schemes (plus legislative and administrative framework required);
- Description of the existing impact of taxes and subsidies on recycling and waste management in New Zealand;
- A detailed discussion of the implications of the product charge concept – including case studies – particularly with regard to paper products and non-paper packaging materials.

The results will be discussed in terms of likely effects on recycling and waste reduction, consumer price and income impacts, estimated product charges, administrative costs and policy options for deployment of revenue generated.

An explanatory note says of the product charge: "It is intended to impose on the producer and the consumer an amount sufficient to cover the subsequent cost of collection and disposal of the discarded goods and/or packaging and to make good any residual damage to the environment."

The note says that to date the practical application of such a concept has been limited to a West German tax on production and import of lubricating oils, the revenue from which is applied in subsidising oil-re-refining and other disposal of waste oils.

The Manufacturers' Federation and the Plastics Institute of New Zealand are determined that such a system should not find its way to this country. PINZ members have been told if they have not already done so, they should take up membership of the Litter Control Council.

Institute members have also been advised that they should deal with the consultant economist through the institute.

T & I officials did not expect such a reaction.

An official said the study was merely part of the general research/information into resource conservation which the department has been engaged in.

It was to counter some of the "ill-informed" information, he said.

The department expects the study will be completed by mid-April by which time it will be in the position to start releasing some information. The full report is set for July.

Asked the cost of the programme, the official said it had not yet been settled but it was "very small".

Flexible hose heads west

A CONSIGNMENT of light flexible plastic hose for use on automatic cleaners for swimming pools, is undergoing trials in Western Australia. The hose, manufactured by Auckland's Pipeline Industries Ltd, is being despatched to Perth in weekly container loads of 20 drums.

Pipeline Industries managing director Warwick McKenzie said the polyethelene hose was light and flexible, and appeared to resist vacuum pressures, which other products have failed to do.

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NEW ZEALAND'S NATIONAL WEEKLY OF BUSINESS, POLITICS AND ECONOMICS

NATIONAL BUSINESS REVIEW

Incorporating Admark

75 cents

Inside

Competition controls split the insurance industry

by John Sloan

THE fire and general insurance world is in turmoil over the recently implemented "follow the lead" agreement.

The Insurance Council of New Zealand devised the scheme that is causing all the heartburn in a bid to control rabid competition in the industry. But many insurers have refused to sign the agreement.

The Trade and Industry Department – and perhaps other Government agencies – are understood to be examining the agreement to determine if it is a restrictive trade practice within the terms of the Commerce Act.

Insurance Council executive director Trevor Roberts last week declined to discuss the agreement or explain what the scheme involves.

Some people have queried the wisdom of putting such a contentious agreement in print.

One company manager said the agreement is "an indictment in the insurance industry ... we are supposed to be professional yet we introduce and try to enforce an agreement such as this ..."

Basically, the agreement provides that when multiple insurers quote for the same risk, the premium rate fixed by the "lead" or "holding" insurer will be followed by all quoting insurers.

This seems a logical approach to control irresponsible competition. But it also looks like an attempt to stifle true competition.

That is the nub of the problem and explains why many insurers have refused to accept the scheme.

Without uniformity in the industry, competition will continue. But in some cases it will be controlled, in other cases it will be open slather.

Insurance brokers have mixed feelings toward the agreement. Some say it doesn't concern them. Others say it might restrict their function, enabling them to complain to the appropriate Government authorities.

The insurance manager of one major industrial enterprise said: "Our legal departments are itching to challenge the validity of the agreement."

Some industry sources say the agreement is intended to protect insurers and brokers who have slashed rates over the past few years but now want competition restricted to protect themselves.

Clients' reaction to the scheme vary. Some recall the "tariff" and "non-tariff" days when tariffed companies quoted a fixed rate.

But often non-tariff companies were cheaper, and, when confronted with the cheaper non-tariff quote, tariff insurers would agree to meet the lower quotation. This charade meant that insurers were "used" and played one off against the other.

The rigid tariff system controlled competition, but the premium structure was based on ancient precepts.

The new "follow the lead" agreement looks suspiciously like the tariff system. Again, insurers and brokers agree that suicidal competition is undesirable but when a measure of control is introduced it is either supported, abandoned or violated.

Already tactics are being devised to defeat the intentions of the "follow the lead" agreement. Many ploys are simple and hard to detect.

An insurance account may be transferred, ostensibly on the grounds of service, facilities, technical expertise and police coverage. The premium is secondary, and may even be the same as that of all other underwriters.

But after the insurance is transferred and the dust settles the premiums are subsequently "negotiated" to achieve a reduction – which the client was after all along.

Even if the "follow the lead" agreement is used and abused, it does permit a shred of sanity to influence the insurance industry.

The industry responds to the pressures of commercial and domestic demands.

It is easy to bait the industry by describing its wounds as self inflicted. But when the industry adopts measures to prevent further injury, it can be castigated for restricting competition.

Over the past three or four years, when other industries were increasing their charges, fire and general insurers were forced into reducing theirs.

In spite of all the talk about self insurance, the foundation of all companies' risk management programmes remains insurance. That is why a strong industry is needed – not one that has been bled dry by self-generated internicine warfare.

The "follow the lead" agreement may ensure that cut-throat competition does not destroy the insurance industry.

The combination of New Zealand's negative growth rate and the over capacity in the local and international insurance markets had proven fatal. This has meant that many companies have been quoting blind just to obtain business.

In an industry where competition ranges from fair to cut-throat and to down right hairy, the move to introduce voluntary controls, is, to say the least, courageous.

The agreement effectively creates two quoting sources. If one quote is requested from the companies who follow the agreement, theoretically they would quote the same premiums. But the quotes supplied by the insurers who do not follow the agreement could be lower.

Under the agreement, insurers are obliged to divulge claims experience and premium rates.

The latter requirement is causing problems because insurers who have refused to accept the agreement, do not feel obliged to reveal premiums to competitors.

Establishing market rates for hazardous or capacity risks is an accepted insurance practice. But blocking free competition on medium non-hazardous risks is bound to be unacceptable to most New Zealand businesses

And many large clients are unlikely to put up with efforts to restrict them obtaining a truly competitive quotation.

Promoting politicians drops out of fashion

by Warren Berryman

THE flashy game of selling politicians is out of fashion for the advertising agencies behind the three main political parties.

Colenso Communications, authors of the dancing Cossacks and frizzy-headed dark folk threatening the Kiwi way of life in 1975, have dropped the National Party account after two victories.

USP Needham decided last month to drop the Social Credit account after only one election campaign.

Labour's Wood and Mitchell had a contract for one election and has not been contacted to renew it. Informed sources said Wood and Mitchell would probably not be interested in the account if it was offered.

For all three agencies, the reason given for dropping political advertising boils down to the same thing: the three-month high of razzamatz preceeding the election, might be fun and exhilerating, but it disrupts the agency to the detriment of long-term clients.

USP Needham managing director Barry Armstrong summed it up: "We don't want to get involved in another election. It places too great a strain on our resources and puts our other clients at a disadvantage.

"It's all right if one has executives with slack capacity. But we have more work on now."

A political campaign totally absorbs the combined efforts of the executive staff of any but a very large ad agency.

The week

US angry with Iran

THE United States broke off diplomatic ties with Iran and imposed a package of sanctions including the immediate expulsion of all Iranian diplomats, an embargo on American exports and a ban on Iranian immigration into the United States. The New Zealand Embassy in Tehran will be re-opened, but Australia is reviewing its economic and diplomatic ties with Iran. Iran warned that it will cut off oil supplies to any country taking part in the sanctions.

SAMOA's anger at use of the LATOS test in barring Samoan students with University Entrance from attending universities here prompted a sudden visit by Samoa's Prime Minister Tupuola Efi. The two Prime Ministers sat down to top-level talks which Efi described as "difficult".

UNLESS the Australian Government comes to some agreement on gaining limited access to the apparel manufacturing market here, it has warned, it will have to cancel the special quota category allocated New Zealand apparel in Australia. In doing so, Australia would be creating a more competitive market, letting importers use the New Zealand quotas to import from elsewhere.

THE weekly Air New Zealand flight from Auckland to Tokyo will start on August 1. Japan Air Lines is to fly into Auckland twice-weekly from July 4. Meanwhile a dispute is brewing over a low-season fare offered by JAL on its new service bridging Auckland-Tokyo-London. Air New Zealand claims JAL has no right to advertise this fare because Government approval has not been granted.

SUGAR prices rose for the first time in a year from 57c to 74c a kilogram – 30 per cent increase. The higher cost of raw sugar on the world market and imported oil have contributed to the hike.

THE price of flour rose by $17.50 a tonne, increasing the price of a loaf of bread by 1c.

A NEW wheat pricing structure will be effective from the 1981 harvest. The growers' price will be calculated on the basis of a three year moving average of the fob price for Australian wheat and the prices of the two past seasons as well as the coming season, to be estimated in December each year. Wheat growers were guaranteed a minimum of $167 a tonne for their 1981 crop.

DISTILLATION laws are to be changed to allow farmers and others to produce ethanol fuel for their own use without having to pay motor spirits duty of 12.7c a litre.

A FURTHER list of goods have been added to Schedule A of Nafta. The seven items include travel goods and circular saw blades, the two-trade benefits of which are estimated at $800,000.

A THREE-time crew member in the Soyuz expeditions, Soviet cosmonaut Lieutenant-General Vladimar Shatalov, was barred from entering New Zealand and Australia. The New Zealand-USSR Society was to sponsor his visit here.

A REFRIGERATED meat carrier, Pacific Fruit, was served with a writ for almost $US3 million by its charterer, Japan's Nippon Yusen Kaisha. The alleged breaches arise from the shipping of meat to Iraq and relate to a meat cargo's return, its condition, and the costs involved.

THE possibility of liquid petroleum gas shortages continuing through the next year brought a warning from Energy Minister Bill Birch that individuals and companies planning to convert should get availability assurances from suppliers.

POLICE Minister Frank Gill left hospital after major surgery to convalesce at home. It is believed he will be fit to resume his work duties in about two months.

SOCIAL Credit leader Bruce Beetham and league campaign chairman N C McConarchy left for Canada to study the Social Credit Government of British Columbia.

TWO pirate FM radio stations, set up to prove the system is easy and cheap, packed up as Post Office radio inspectors came close to tracking them down. One station's transmitter was found and confiscated; the other stopped transmitting voluntarily.

THE New Zealand Ballet Company has reached an all-time peak in its popularity – the company averaged 95 per cent capacity sales for the financial year compared with 60 per cent attendance rates for previous seasons.

UEB Industries Ltd might be forced to build its $27 million paper mill in Auckland instead of the Waikato. The Hamilton City Council found the siting of the mill to be in breach of urban development policies. The delay involved in putting up a case to side-step these policies might be too long for UEB who are expecting equipment to arrive early next year.

A CORRECTION to last week's column: Richard Stratton was appointed Britain's High Commissioner to New Zealand (not vice versa, as we recorded).

Business week

Wilson Distillers Ltd reported an unaudited tax-paid loss of $36,982 for the financial year, (a loss of $25,263 last year).

Midland Coach Lines Ltd reported an unaudited pre-tax profit of $55,400 for the half-year to December 31 ($7400 for same period the previous year). Interim dividends: ordinary at 6c and specified preference at 5.5c payable April 30.

J Rattray and Son Ltd reported an unaudited tax-paid profit of $589,000 for the half-year to January 31 ($420,000 for same period last year). An interim dividend of 7c is payable on April 28.

McAlpine Prestcold Ltd reported an unaudited tax-paid loss $103,500 for the half-year to January 31 (a profit of $402,000 for the same period last year).

Henry Jones [IXL] Ltd appointed Geoffrey Lord as a director.

Spedding Consolidated Ltd appointed G C M as managing director.

Ceramic Ltd appointed W G Bellew as director.

Property Securities Ltd appointed P R Surridge as chief executive.

Arthur Barnett Ltd appointed John Neville as director.

The week ahead

MONDAY: Society of Intellectually Handicapped Children conference in Napier.
Municiple Associ[ation] conference in Rotorua.
TUESDAY: Smaller bus[iness] conference in Wellington.
Dominion president Federated Farmers addr[esses] the Agricultural Commi[ttee] the European Parliament Sasbourg.
WEDNESDAY: Talk "Will the Real Industrial Engineer Please Stand [Up]" sponsored by the Institute of Industrial Engineers at S[...] House Theatrette in Wellington.
THURSDAY: Dunlop Ltd's annual general mee[ting] in Wellington.
FRIDAY: Lions D[istrict] Convention in Wanganui.

Economic indicators

THE private sector growth rate dropped [...] per cent for the year [to Fe]bruary compared [...] per cent for the Ja[...] and 29.1 per cent [...] year.

A SURPLUS of $[...] was recorded in the e[...] exchange transaction [Fe]bruary, compared with [...] plus of $60 million [...] nary, and a deficit of $[...] lion in February 19[...] deficit in the year to Feb[ruary] was $476 million, co[mpared] with $424 million for the [year] to February 1979.

THE CPI for the M[arch] quarter showed an increa[se of] 3.9 per cent. For the M[arch] year, the CPI increased b[y ...] per cent. In the yea[r to] December, the CPI had [risen] by 16.5 per cent (in the ye[ar to] March last year prices [were] rising by 10.4 per cent).

Exchange rates

As at April 10 1980, $NZ1 worth:

Australia	.438
Britain	1.1184
Canada	.8093
Fiji	234.66
Japan	1.7611
West Germany	.9334
USA	12.63
Austria	29.65
Belgium	1.4580
China	5.4840
Denmark	4.0735
France	39.68
Greece	4.7072
Hong Kong	7.5271
India	8231.89
Italy	234.66
Malaysia	1.9357
Netherlands	
New Caledonia & Tahiti	74.80
	4.7353
Norway	9.2258
Pakistan	[illegible]
Papua-New Guinea	46.8[illegible]
Portugal	2.1318
Singapore	.7575
South Africa	66.89
Spain	[illegible]
Sri Lanka	4.0790
Sweden	1.6630
Switzerland	.9083
Western Samoa	

The week

Carter Holt directors fighting Fletcher takeover

FLETCHER Holdings Ltd, in a record setting $44 million bid, is out to take over Carter Holt Holdings Ltd. But Carter Holt directors are fighting back.

If successful, the takeover will change the face of the timber industry and climax Fletchers move to divest itself of extraneous investments and concentrate on its mainstream activities.

The takeover will also realise the aspirations of Fletcher's new managing director, Hugh Fletcher – which is what worries Fletcher's competitors.

Fletcher has made no secret of his plans for the country's economy.

Fletcher argues that New Zealand should become more like Japan Inc with a "total united team approach between all parties – Government, industry, labour and finance" and protected by import licencing and other barriers against foreign competition.

New Zealand is too small and weak to play fair in the world of foreign trade, he has said. New Zealand's big industries are too capital-intensive to be left to market place competition where mistakes might spell disaster and too small to play the rough game of foreign trade. We need fewer bigger firms, Fletcher points out.

Fletcher competitors are worried that Fletcher might see himself as king pin in the new corporate state.

And they fear the Fletcher octopus might reach out to envelope their companies with the aid of a Government with whom Fletchers has had a long-standing close relationship. They note Fletcher's growing control of wood from State forests.

This month Fletchers also received Government approval for a joint deal with British Petroleum to plant pine on 50,000 hectares of east coast land, giving BP a tax haven for its windfall earnings from the Shell BP Todd oil interests as well as giving Fletchers a future supply of timber.

Seeking new direction for the company, Hugh Fletcher has plumped for the Forestry, methanol, and high technology such as silicon chip development. Government's decision to go ahead with Petrocorp frustrated his energy plans.

On forestry, Hugh Fletcher and brother James see their holdings as far too small in the worldwide scheme of things. Hugh told the *New Zealand Herald* last December that Tasman Pulp and Paper had a cash flow of only $20 to $30 million, when in the United States companies without a cash flow of at least $75 million would not survive in the paper industry.

Brother James Fletcher said the Carter Holt takeover got Fletchers to the size "where people don't laugh at us".

If the world market for wood products expands, New Zealand could be looking at a 10-fold expansion in wood product exports by the 1990s.

Fletcher's takeover of Carter Holt involves $32 million in cash and $12 million in shares.

Executive director James Fletcher said the company had raised about $50 million over the last three years, selling off assets that didn't fit with Fletcher's new direction.

Further cash would be raised, he said, by "big ticket leasing" of plant in which Fletchers would sell plant with a right to buy back at a depreciated value. This offer had been put to the banks.

There was the current debenture issue too, he said.

Fletchers controls Tasman Pulp and Paper with a 56 per cent interest.

Combining Fletchers with Tasman and Carter Holt, Fletchers will control at least 8 per cent of the total timber acreage in the country and more than 64 per cent of the cutting rights in state forests.

Rival timber interests are concerned that a burgeoning Fletchers is riding on the back of state subsidised Forest Service timber.

Last year Tasman bought out a mill and processing plant from Fletchers. The plant, in the Taupo-Rotorua area, is still managed by Fletchers, milling wood for the local market with supplies from Tasman which in turn gets trees from the Forest Service.

This deal gave Fletchers extra cash leaving it free to export wood from its own forests at a high price and having the local market supplied with cheap wood from state forests.

Until this month Tasman enjoyed a long-term contract with the Forest Service for wood at only $1.06 a cubic metre. ($1.06 now worth only 30 per cent of the value originally received by Government when the contract was signed in 1955).

On April 1 the new price for pulp became $2 a cubic metre and the price for saw logs $15 a cubic metre over five years.

Fletcher's competitors and the Forest Service acknowledge it costs about $15 a cubic metre to grow pine in a managed forest with finace borrowed at 10 per cent.

The Forest Service can sell (on a stumpage basis) a tree for export at about $40 a cubic metre versus the $9.25 that will eventually be paid by Tasman.

Whichever way one looks at it the Government is subsidising companies receiving state forest timber. And Fletchers will control the lion's share of the crop.

On Fletcher's side of the argument, it risked its money in Tasman at the beginning and stuck with the company through thin years. Now that Tasman's future looks bright, Fletchers deserves some reward.

Fletchers' competitors don't quibble with that – but worry about further takeovers financed with taxpayer-subsidised profits.

Fletchers points out that these State Forest wood contracts are gained through tender and don't run forever.

Carter Holt has obtained an interim injunction from the court restraining Fletchers in its takeover bid.

Fletchers is trying to have this removed.

Carter Holt then watered down its capital by issuing 11.5 million of its shares to "friendly companies" in a manner reminiscent of the Lion-Androcoles affair. The Stock Exchange suspended trading in Carter Holt shares as a result.

Securitibank liquidator prepares for action

by Warren Berryman

SECURITIBANK liquidator Harold Goodman has replaced his instructing solicitor, Pat Towle, with the legal firm Sturt and Harrison.

The move suggests that the liquidator intends to pursue the $50 million action against Securitibank shareholders and directors initiated by the Auckland Paraplegic and Physically Disabled Association Inc.

Chas Sturt and Rodney Harrison opened their legal firm in September. Sturt, formerly of the Fraud Squad, gained his legal degree part time while with the Police. He worked for the Securitibank Investors' Consortium, whose stated purpose was to gain civil recovery from Securitibank shareholders.

For the past 18 months he has worked for Securitibank liquidators Keith Crawshaw (now deceased) and Harold Goodman alongside accountant Mike Watson, investigating the possibility of suing Securitibank shareholders and directors.

The paraplegics, and the investors' consortium behind them, have almost run out of money. They have been urging the Securitibank liquidator to take over or join their action using creditors' money for the legal battle.

The question facing Goodman, and Crawshaw is whether the liquidator should risk $500,000 or so of creditors' money in legal fees in an attempt to sue the Securitibank shareholders for $50 million.

The action, initiated by the paraplegics and investigated by Sturt and Watson, relies on section 364 of the Companies Act and the Insolvency Act.

The action would be breaking new legal ground and, if successful, would alter the concept of a limited liability company.

Mr Justice Barker will hear a case on June 30 in which a decision is expected to resolve, the Securitibank liquidator's role regarding taking over the Paraplegic's action or joining it.

Goodman has publicly said he would be taking some action against the Securitibank shareholders and directors. He did not say exactly what form these actions would take.

The appointment of Sturt and Harrison would appear pointless unless Goodman had his eyes set on that $50 million from the Securitibank shareholders.

If the action proceeds, details of the events preceeding the Securitibank crash will be heard in open court.

The week

DFC flings out red carpet for Arab investor

by Warren Berryman

THE Saudi-New Zealand Capital Corporation, a $20 million joint-venture between Saudi Prince Nawaf Bin Abdul Aziz, the Development Finance Corporation and unnamed New Zealand interests, is seen by the DFC as a means of providing the equity finance for growth industries *which* is unavailable on the local capital market.

The company, to be established within two months, will be 50 per cent owned by Aziz, 25 per cent by the DFC, and the remaining 25 per cent offered to local interests.

DFC general manager John Hunn said the Capital Corporation would be primarily interested in large equity investments in energy, farming, fishing, general manufacturing, forestry and tourism.

Smaller projects, involving inventions and high technology would continue to be handled as usual by the DFC itself.

The Capital Corporation's gearing would be low, as the preponderance of the money *would go into equities* — not debt finance, Hunn said. "It will be structured in a way so that when we fill up the portfolio with, say, $20 million worth of investments on the asset side, and we see more opportunities, we increase the capital of the company to increase the whole size of the operation."

The company would be free to deal in the money market like a finance company, he said. But the short-term money management side of the operation would only be a minor part, handling monies *received from overseas until* they were placed in equity investments.

Estimates for equity investment needed in New Zealand's energy projects over the next decade run between $2 and $5 billion.

Hunn points out that the Manufacturers' Federation projections show that total capital requirements will run to $4 billion a year by 1984-5.

Hunn said that to finance this sort of capital requirement internally, New Zealand would need savings *of about 25 per cent of GDP*. Present savings are only 21 per cent of GDP and the trend is deteriorating. "To bridge the gap we obviously have to go overseas," Hunn said.

Total New Zealand investment has fallen from the traditional 23 per cent of GDP to 18 per cent over the past five *years and promises to deteriorate* further with the growing inflation.

This dearth of local capital has, in part, resulted from the Government sucking the system dry of the investment capital needed to finance our future in order to keep Government expenditure running at about half the GNP.

This has left nowhere to turn, but overseas.

Merchant bankers claim they have had overseas investors willing to place money in *New Zealand. But borrowers* have been unwilling to take the exchange risk on overseas funds.

The prime interest rate on American dollars is now 19.75 per cent in New York. Add to this 1 per cent for exchange risk cover, and the money would cost the New Zealand blue chip borrower at least 21 per cent a year.

The Capital Corporation is dealing in equity finance not debt *finance. But Aziz must* have seen the potential earning here at least as competitive as with this prime rate *interest*.

Hunn said Aziz was presented with sample earnings from large New Zealand companies. These earnings, he said, did not stack up badly in the world-wide investment market.

Aziz considered at least six proposals — some debt, some equity finance proposals — before plumping for the Capital Corporation scheme, Hunn said.

Apart from strict financial considerations Aziz saw New Zealand as a secure stable *country which he liked and* this was a factor in his decision, Hunn said.

Hunn said the investments of interest to the Capital Corporation would be large — at least six figures.

He said he could neither detail any investments being considered, nor name the New Zealand companies that would be taking up the 25 per cent local shareholding in the corporation.

Apart from bridging the gap between investment needed and local capital available, the Capital Corporation *would fill the role of merchant* banker dealing in venture capital.

Besides the DFC, New Zealand has no merchant bankers other than in name. Merchant bankers overseas back ideas and concepts with equity as well as debt finance. They often back a company with little or no capital other than its ideas, dreams, or patented invention. This sort of investing requires involvement with the borrower and a lot of research into his schemes.

Our "merchant bankers" tend to look only as far as a borrower's securable assets and lend *accordingly, taking* little or no risk on new ventures. Often this means money flows into unproductive home mortgages rather than into ventures with the potential to create new wealth and employment.

According to Hunn, the Capital Corporation will fill the gap left by local merchant bankers and finance companies in the venture capital market.

Local advisers aid Saudi prince

WHEN Saudi Prince Nawaf *Bin Abdul Aziz visited* New Zealand last year, he was accompanied by New Zealand-born Hong Kong businessman Pat Samuel and Sir Geoffrey Roberts, former Air New Zealand chairman and present chairman of Kaipara Edible Oils Refinery Ltd.

Every effort was made to give Aziz royal treatment during his visit. Senior civil servants and politicians bustled about and Auckland's plush watering hole, Club Mirage, rolled out a brand new red carpet for the prince's arrival.

Three seats on the board of the Saudi-New Zealand Capital Corporation are reserved for Aziz, Sir Geoffrey *Roberts, and Pat Samuel.*

Informed sources say that both Samuel and Sir Geoffrey helped set up the deal with the DFC, with Sir Geoffrey acting for Aziz in New Zealand after the prince left the country.

Samuel, apart from being adviser to Aziz, is deputy chairman of Southern Pacific Properties of Hong Kong, which owns Travelodge. Southern Pacific Properties is owned by Arab arms mer*chant Adnan Khassoggi* through his Triad Corporation.

Khassoggi in the past, has expressed interest in investing part of his billions in New Zealand.

But John Hunn, general manager of the DFC, said Khassoggi's *name had not* been mentioned in the Capital Corporation deal.

Hunn said *Aziz* had considered bringing in some of the Saudi royal family into the deal but had finally decided just to invest his initial $10 million share off his own bat.

Aziz will be investing through a company called Bellingham. Hunn said he had not yet all the information on this company but understood *it was wholly owned by Aziz.*

The prince is not interested in a quick return on his New Zealand investment. Hunn said "He is only interested in the long-term sort of return New Zealand companies are making."

Fletchers buys remaining assets

GREGORY Developments Limited — the Wellington development company which went into receivership in July 1979 — has sold its remaining assets to Auckland-based Fletcher Residential for over $1.5 million.

Receiver Don Francis of Hutchison Hull Co confirmed the sale last week.

Gregory Developments was formed in November 1977 by Gregory Homes Limited, with Fletcher Residential taking an equal share in the venture.

After the development company went into receivership, its parent Gregory company found itself in similar difficulties — unable to service its own mortgages without *income from the other.*

At that time, Fletchers made a commitment that all development creditors would be paid.

There have been problems in sorting out the company's affairs, and Fletchers apparently decided it would simplify things if it put in a bid for the remaining assets. Part of the arrangement was that the unsecured creditors contained in the statement of affairs would be paid.

Meanwhile the sale of the assets in Gregory Homes is continuing.

Gregory's managing director Pat Brodie was not available for comment.

Comment

Editorial

THERE has been a healthy debate over the last few years about economic restructuring and the Government has responded by giving effect to an acknowledged need to loosen the regulatory grip that has stifled enterprise and economic growth.

The textile industry report brought out into the open the case for restructuring an inefficient industry. The plan mightn't please everybody, but it does allow the public to see what has been proposed for overhauling the industry, and the resultant dialogue should enable the Government to make the most prudent decisions for the national good.

In stark contrast, there has been scant public participation in the decisions that will determine what use will be made of our energy resources.

Without reference to what the public might want, the Government is proceeding to build a methanol plant. It's secret deliberations were challenged in a series of articles in the *Dominion*. The Prime Minister scoffed at the facts the newspaper presented, but refused to enlighten the public by stating where the articles were in error until more than a week after the decision had been taken in favour of the Petrocorp scheme. Even then his statement raised as many questions as it answered.

Similarly, the public is denied data relating to the proposed development of more aluminium smelters.

Professor Paul van Moeseke, professor of economics at Otago University, maintains that another aluminium smelter anywhere in New Zealand would cost more in imports and inputs than it would earn in foreign exchange. The professor's case is based on systematic economic argument, and he has been handicapped only by being able to work with data publicly available. He maintains that another aluminium smelter built anywhere in New Zealand would be an economic disaster in terms of the national interest. It would constitute an extravagant waste of resources, require massive subsidies by other electricity consumers and involve about 37 times the average industrial investment required for each job created. The study challenges notions that cheap hydro power is a trump card for industrial development and criticises the concept of an electricity surplus.

In a nutshell, it shows that an aluminium smelter anywhere in the country at anything less than 3c a unit for electricity (Comalco pays 0.7c at Tiwai Point) would be a charge against the public purse.

The Government has been eager to shoot him down, while doing nothing to encourage a proper public understanding of development proposals with profound implications. Trade and Industry Minister Lance Adams-Schneider said that the Institute of Economic Research had made similar independent studies. The institute — according to the Minister — has advised him that its research shows "substantial" national benefits. Alas, the report is not his to release: it was commissioned by a private firm which engaged the institute to undertake a feasibility study to show what national benefits would result from its project.

The Department of Trade and Industry has undertaken a study covering all development proposals before Government — but this was "not designed for public consumption". And unless it was "obviously in the public interest", it will remain secret.

Adams-Schneider asked that Dr Moeseke make his calculations available to the Department of Trade and Industry "to enable a more detailed analysis of his comments to be made." All information is to be collated, commented on (by whom?) and presented to Cabinet for a decision. And so a parasitic Government can feed off the professor; the professor will get nothing in return to enable him to revise his work. And the public's understanding of the worth of another aluminium smelter is confined to its degree of scepticism about Ministers who cannot produce facts to support their patronising reassurances.

Of course, the Government is welcoming big projects because the bureaucrats who plan our power needs bungled (behind doors locked from public scrutiny). The result is a power surplus of embarrasing dimensions to a Government which is grossly overcharging ordinary consumers. The Government has decided what should be done with the surplus, and if it isn't careful it is likely to commit the country to a series of developments that quickly turns surplus into deficit.

When there is a surplus, there may be cause for selling it cheaply (to whom is the crux question). But it would be scandalous to sell power at bargain prices if there is a supply deficit. So exactly what does the Government's data show? And what prices is it prepared to offer to encourage energy-guzzling projects?

The Government is undoubtedly advantaged by having more information at its disposal than the professor or the public. But whether the Government's study is better than the professor's is open to question.

If the Government wants to give people the incentive to contribute to the industrial change it is trying to effect, it must make them feel involved in something worthwhile. But it is counter-productive to let the public think only certain favoured groups are being given access to the country's resources and to the decision-making process that shapes the policies which permit resource development. Those who are excluded from this process have no reason to exert themselves to help implement the Government's plans. Thus secrecy is counter-productive.

The Government further discourages support for its plans when it changes the ground rules as it did in passing the National Development Act — to favour some and not other enterprises.

Above all, the idea of favouring selected businessmen is inconsistent with ideals of free enterprise which the National Party purports to encourages. The policies now being made behind closed doors mean that bureaucrats, not the marketplace, make crucial economic decisions. Much worse (because bureaucratic decision making isn't necessarily a bad thing) when the decisions are made we don't know they have been made.

And so we are put at the mercy of civil servants whose incompetence in the past in planning power requirements is the fundamental cause of the country's industrial structure being as it is today. The politicans who didn't distrust civil servants enough in the past are being along with the notion they alone are omniscient. And the public can go hang.

Without word of a lie

Passing on the good news

OGILVY & Mather no doubt were thrilled to have been among the winners at the INL Newspaper Advertisement of the Year Award (the first of its kind in New Zealand, sponsored by Independent Newspapers Limited).

Ogilvy & Mather won the Chairman's Award, plus the top awards in the automobile and automotive equipment, transport, category and the agricultural and horticultural categories. And it was the finalist in a number of other categories.

If you missed the results in *NBR's* Admark column on March 31 and you happen to have a copy of the INL-published *Evening Post* of March 27, you can read all about Ogilvy & Mather's triumphs in a full-page display advertisement. They are recorded under the headline:

Ogilvy & Mather judged the
the most creative advertising agency
in New Zealand.

Plumbing the depths to cut costs

OUR editorial two weeks ago about vague ministerial statements and, too often, their lack of candour was bound to prompt readers to toss a few more examples into our net. And one of the best involves our good friends at the Department of Agriculture and Fisheries.

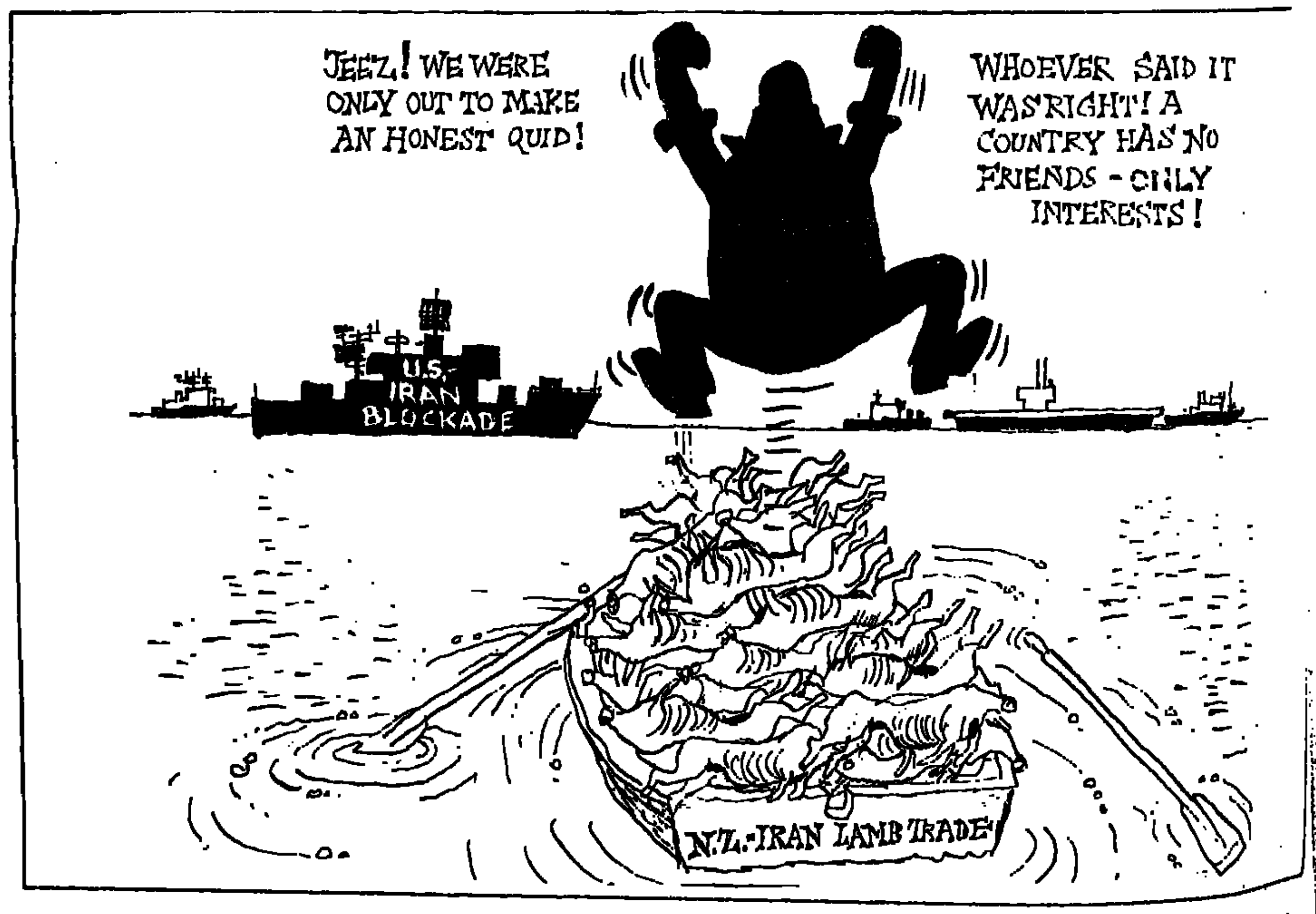
On February 7, Agriculture and Fisheries Minister Duncan MacIntyre announced that Whangarei Engineering Company had won a contract of more than $1 million to build a new fisheries research vessel.

When an inquiry was made as to just what more than $1million meant, the answer was given: $1.3 million.

On March 25, Radio Avon reported the signing of a contract on February 21 for $2.2 million. And that was $75,000 below what Whangarei's tender price had been. The price was dropped after some design modifications and a change of equipment brands.

The 28-metre vessel is due for completion in April next year. And we hear that shower facilities and a women's toilet are likely to be among the mod cons that the boat doesn't boast when it eventually puts to sea.

Brockie's view



NBR takes to the stage

WE tend to refute charges that we lead our readers a song-and-dance with our reporting. But the *Rotorua Post* obviously is unconvinced.

Reporting on our Supreme Court action to have an injunction order lifted, the *Post* twice referred to us as the *National Business Revue*.

What the CPI doesn't record . . .

WITH the Consumer Price Index showing a 3.9 per cent rise for the March quarter and an alarming 18.4 per cent for the year to March, the Government is sure to be looking at ways of curbing such rapid inflation.

But here's hoping that whatever policies result, they aren't as facile as some of the ideas being bandied about by Miracle Man Muldoon.

Interviewed by NZPA reporter Allan Baddock early this month, Muldoon said: "I have no doubt whatever shifting the tax burden (from direct to indirect taxes) would lower the inflation rate over a period because we could put indirect taxes on items that are not heavy in the Consumer Price Index."

No doubt he thinks we're pretty gullible on this side of the Cabinet Room door — but not so gullible that we'll swallow that particular logic surely!

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Comment

Planners' policy paper stumbles into irrelevance

THE Planning Council has a presentational problem with its publications.

Its chairman, Sir Frank Holmes, has pointed out that while some of its published papers represent council policy, others are just intended to stimulate discussion and cannot be regarded as carrying the imprimatur of council endorsement.

Apparently its most recent document, written by "Dr P J Lloyd and others", comes within the latter category. In this case, I would hope that the lack of council endorsement of its recommendations reflects more than the technicality of the paper's status, but recognises also its irrelevance as an exercise in the serious business of giving advice to Government.

The paper is as long-winded as its title *(New Zealand's Long-Term Foreign Trade Problems and Structural Adjustment Policies)* and it provides rather heavy going for the lay reader. Any discussion stimulated by it is likely to be confined largely to the technical cognoscenti.

Comments I have heard from within the ranks of that erudite elite, suggest that the techniques of analysis are in several instances open to serious question. There are allegations of inconsistency in definition, leading to invalid comparisons, the use of dated figures and so on.

I am not competent to discuss these technicalities. My concern is with the basic rationale for the paper and with the contribution it can make to policy formulation.

The paper's preface seems to disclaim any objective of giving policy advice. Lloyd states there that the paper does not recommend specific policy changes. He adds: "Rather it lays out a menu of choices from which a selection must be made in the light of future events and knowledge of societal preferences and the relationships within the economy."

Have we, then, a *rara avis* — an economist who, within the scope of 124 closely typed pages, can refrain from offering advice?

Sadly or happily — depending upon your point of view — that seems not to be the case. Perhaps by the time he had reached page 61, Lloyd had forgotten his prefatory sentiments, for there he recommends firmly the abolition of import licensing. On page 66, he proposes that this step, together with "reform of the tariff and the structure of export subsidies" should take place within a framework of three to five years.

Herein, I believe, lies the basic irrelevance of this paper as a policy guide.

Government has already made clear its broad policy approach to the restructuring of the manufacturing sector. There are two key documents in this respect — the 1979 Budget and Government's response to the Industries Development Commission's plan for the textile industry.

Neither of these historic documents seems even to have been considered by "Dr P J Lloyd and others", except for an analysis of the new export incentives which the Budget introduced.

It may be that the timing of the textile plan announcement was too late for the authors' copy deadline, but no such excuse could be offered in relation to the Budet.

The 1979 Budget marked the end of a policy era in industrial development. That era, dominated by the thinking of the late Dr William Sutch, saw the rapid development of import-substitution industries, highly protected by quantitative controls. The main criteria supporting this policy were exchange saving and employment creation for a fast-growing workforce.

The implication of the import licensing flexibility provisions introduced in the 1979 Budget (and completely ignored by Lloyd) was that no more import substitution industries that are highly uncompetitive internationally, would be allowed to set up. The question of what to do with the body of industry that grew up under the old criteria will be dealt with by the industry studies programme, for the completion of which the Budget set a timetable.

The IDC report on the textile industry has been the first of these studies to emerge and it almost certainly expresses the broad philosophical approach to industrial development that we will see in the studies of the 10 other industry groups named in the Budget.

Summed up, this approach would seem to say: "Identify the industry's strengths, construct a development plan to build on those strengths, especially for export; tackle the problem of input costs by bounties, where appropriate, and by providing imported substitutes; move out of those areas where the degree of inefficiency by international standards is too high to justify."

The Budget made it quite clear that import licensing would remain, at least for the foreseeable future, but the flexibility provisions it introduced are resulting in the reduction or the elimination of some of the inhibitions to inefficiency that the administration of licensing has produced and from which manufacturers have been the main direct sufferers.

The structural change that is now occurring in manufacturing, both as a result of Government policy and as a reflection of market forces, is of major significance — but one would get no hint of it from Lloyd's paper.

The Government has already given its broad signals on restructuring to the marketplace. Many major ministerial statements have transmitted the message and the Manufacturers' Federation has given a lot of time to helping its membership recognise and interpret accurately the implication of Government policy.

The Lloyd paper seems to be a studied exercise in ignoring these factors. Instead, it proposes that Government flash a set of wholly new signals to the marketplace. If Government were disposed to accept this advice — and clearly it is not — the result would be rampant confusion, detrimentally affecting investment decisions and business operations generally.

In the American vernacular, it would be a hell of a way to run a railroad.

It may be vanity to suggest it, but I would like to feel that the recent indicative planning exercise by the Manufacturers' Federation, charting an export-led growth strategy, will be far more significant in the context of economic development and structural change than will the rather pointless exercise indulged in by "Dr P J Lloyd and others".

Ian G Douglas is director general of the NZ Manufacturers' Federation

European development: does the CAP fit?

RECENTLY the European Parliament, reflecting concern in the majority of EEC member-countries, began calling for a total overhaul of the community's spending policies. Under the present system the Common Agricultural Policy (CAP) receives three quarters of all Community monies. But just how effective is the CAP as a *de facto* regional and social policy? Margaret van Hattem of the *Financial Times* gives this appraisal.

THE European Economic Community last year spent the equivalent of £2.3 billion (1.4 billion European Currency Units) on storing its surplus food. That is more than it has spent on its poorer regions through the regional development fund in the past five years.

A main argument in favour of spending three-quarters of the Community's budget on the Common Agricultural Policy (CAP) has always been that it is much more than a farm policy — it is also a *de facto* regional and social policy.

But just how effective is this policy in creating employment and stimulating regional growth?

And might it not be cheaper to make direct payment to farmers, rather than take the long and tortuous route of price support, which runs through so many traders and entrepreneurs before it reaches the farmer or worker in a tomato canning factory?

The 10.7 billion ECU spent last year on the Common Agricultural Policy, say its advocates, kept many marginal farmers in poor regions on the land. It also had a substantial spin-off effect on the shopkeepers, mechanics, vets, electricians and builders who swell the rural work force.

It stimulated production, hence employment, in transport, food and animal feed processing, and in farm equipment manufacture and kept the regions alive.

Hogwash, say their opponents. Transport, food processing and machinery production are becoming so capital-intensive and technologically advanced that they create far fewer jobs than is thought. Of that 10.7 billion ECU, less than 5 per cent went directly to the farmers: nearly half was paid to traders to top up export prices, 14 per cent to storage companies, and the rest to food processors and co-operatives.

Price support money does eventually filter through to farmers, they say, rather like whey gets through cheese cloth: the substance is left behind.

The truth is probably somewhere in between. The agricultural policy system of guaranteeing a minimum price on unlimited quantities of butter, skimmed milk powder, wheat or beef enables the traders, manufacturers and co-operatives which sell into the intervention stores to buy everything the farmer grows at a much higher price than is paid anywhere else in the world.

National governments help the farmer-entrepreneur with grants, tax relief and interest subsidies, and the farmer-worker with social security payments. They spent twice as much on their own national policies last year as they did on the agricultural policy.

"There's no such thing as a poor farmer," says the Community official in charge of markets. "There are some low-income farmers, but even these have more capital assets than the average non-farm employee." Thanks to the agricultural policy, farmers enjoy a security denied to most workers and investors in the Community.

The justification for the high subsidies is that their benefits spread far beyond the 8 per cent of the Community work force who work on farms. The boost to farm incomes is multiplied as it spreads, stimulating demand for goods and services through the whole economy.

Studies in Ireland indicate that the value of increased farm exports is multiplied by 1.8779 by the time it works its way through the economy to the gross national product.

On this basis, Dr E A Attwood, of the Irish Ministry of Agriculture, calculates that the I£226.4 million Ireland received from the farm fund in 1978, with an estimated extra I£340 million earned by exporting at Community rather than world prices, boosted Irish gross national product by more than I£1 billion — around 17 per cent.

High Community prices have particularly benefited the Irish food industry. The gross output of companies producing dairy products, beef and lamb rose from I£283 million in 1972 (the year before Ireland joined the Community) to I£1.357 billion in 1978 — a real growth of 120 per cent.

Not everyone does as well as the Irish. Although farm incomes in the Community rose by an average 11 per cent in 1978 (2.9 per cent in real terms), regional incomes will vary widely.

In many cases they are drifting further apart. Farmers in the Ile-de-France earn six times as much as those in the Limousin region: the farmer in Hessen less than three quarters of the average in Schleswig-Holstein; the Welsh farmer just over half what the north-eastern English farmer gets.

The price support mechanism is an inefficient instrument of social and regional policy. It often helps the rich regions more than the poor, the capital-intensive more than the labour-intensive enterprises.

It is, after all, a market mechanism, and is operated day-to-day in Brussels by a handful of officials totally unqualified to assess the social and regional implications of their decisions.

The Community, by spending 72 per cent of its budget on price support, concentrates a disproportionate amount of power in their hands.

But the price support mechanism looks like continuing to be the Community's main instrument of regional and social policy until that far-off day when prices are cut to make room in the budget for a more equitable system

Letters

Study figures dubious

MR Berryman (*NBR* March 17) describes as "laudable" the justification used by the Government for "shaking up" the clothing and textile industry.

This was that the local consumer was subsidising jobs by $130 a household a year and that the cost of keeping each clothing and textile worker employed was $6800 a year.

Mr Berryman may be interested to know how these "precise" figures were calculated. A study in Australia apparently showed that textile prices of Australian manufactured apparel were 80 per cent higher than fob Asian prices.

The IDC presumed that it would be the same in New Zealand so the magic figure of $130 million is, when multiplied by 180 per cent, equivalent to the $290 million volume of production in New Zealand. The $130 million divided by the number of textile and clothing workers gives the $6800 and divided by the number of households gives the $130.

These figures are dubious for a number of reasons. They work off Australian assumptions that may not apply to New Zealand. Also, they work on the presumption that clothing retailers in New Zealand would pass on all the savings to the householder. If the DFC is to draw on Australian studies, they should mention that the major beneficiary from imports to Australia were clothing retailers who enjoyed much increased margins. They should also mention the loss of some 14,000 jobs for Australians because of a Government decision to allow in imports. The Government later had to change its stance to a significant degree.

More importantly, even if the $6800 was correct, what does it represent? It simply means that because of the shocking labour conditions and miserable wages applying in Asian apparel companies, it is cheaper for New Zealand retailers to import apparel than buy it from domestic manufacturers. There is no way that New Zealand clothing workers want to compete with those labour conditions.

If Mr Berryman supports the policy of "make what you can make cheapest and import what you can import cheapest" then by that argument you can wave goodbye to, probably 90 per cent of, New Zealand manufacturing industries and promise those few workers who are employed, labour conditions and wages far worse than we have seen for decades, if ever at all.

P L Conway
Asst. Secretary
Canterbury, Westland, Nelson and Marlborough Clothing and Related Trades Industrial Union of Workers
Christchurch

Librarians on technology

AS chairman of Mr Brian Sturm's session at the New Zealand Library Association's conference at Lower Hutt in February, I feel I must reply to your paper's comments on Mr Sturm's session in particular, and the computer technology awareness of librarians generally.

That part of Mr Sturm's paper were too advanced for some of the audience will be understood when it is pointed out that the size of the audience was both a compliment to Mr Sturm and an acknowledgement of the eagerness on the part of librarians to become familiar with the new technology.

Mr Sturm was asked by the Special Libraries' Section of the association to give a paper and it was rewarding to see the size of the audience and to realise that many public and university librarians and local body councillors (who also attend conference as representatives of the employing authorities of many librarians) attended this session. If some of the questions at the end of the session showed a lack of understanding of the more technical points in the paper, this was to be expected.

Many special librarians are already proficient in the use of computer techniques, especially in the field of information retrieval from overseas data bases. Mr Sturm was asked to speak on the use of computers for library housekeeping tasks.

During the conference, 102 conference participants attended on-line training courses, and in the week after conference, training courses were held in Auckland.

Does this sound as though librarians are dubious of a computer future?

Marjorie Warwick
Chairman
Special Libraries' Section
New Zealand Library Association

Keep bodies well tuned

EVERYONE knows that if your put the wrong fuel in your car it will not work properly. But when Denis Burkitt (*NBR* March 17) says we do that to ourselves the answer is: "Our experts have not yet proved it."

While working as a pathologist in Africa and elsewhere I supplied Denis with some of his data and I can confirm that heart attack and stroke, appendicitis, gall bladder disease and others are almost unknown among rural Bantu, New Guinea Highlanders and other people who live on their ancient diets free of western contamination.

Homo sapiens was evolved 50,000 years ago to live on the foods available. The diet, with some exceptions, was two-thirds vegetable and one-third animal matter. Today in the western world the ratio is reversed and with it the fibre has been drastically reduced. Refinement of carbohydrates has further altered the national diet. It is no wonder our machine sputters and stops.

For some years I have had a small group of patients already seriously affected by arteriosclerosis and other modern diseases on a diet high in fibre and very low (by New Zealand standards) on fat and refined sugars. I and they are quite convinced that they have improved.

This country needs a lot less procrastinating discussion and a good-sized trial of these ideas. Only then will the sceptics be convinced of the obvious. What seems too simple to be believed is not necessarily wrong.

S McClatchie MC MD
FRCPath
Pathologist
Cook Hospital
Gisborne

In defence of Marsden A

AS I was closely associated with the proposal to build the Marsden A power station, the remarks in the article headed "White Elephants May be Harnessed" (*NBR* March 17), call for some comment.

The need to provide energy-generating capacity to make up shortages due to low river flows was recognised in 1964. The ability of generating stations to give this "make up" or "firming up" of hydro-electric capacity would be possible only if such "firming up" capacity was not used when water flows were average or higher.

This reserve energy generation capacity could have been provided by more hydroelectric stations or by thermal stations provided stations were not used when water flows were adequate.

To illustrate this point: If river flows in the 1988-89 year happened to be as low as in the 1977-78 year, the thermal generation energy to make up the shortfall in hydro generation would be of the order of 4500 million kilowatt hours (4500 GWh). That is more than the capability of the New Plymouth station on a load factor of 80 per cent for the year.

If thermal stations were used then the fuel supply would have to be intermittent. This need ruled out the use of coal as the full load coal requirement of a station such as Marsden A would have been, for six months operation, nearly 400,000 tonnes. This would have meant the opening up of a new mine to work intermittently which was not practicable or economic. In 1964 oil was the only choice. As the lead time for a change in delivery rate was four months tank capacity to hold four months full load burning rate was necessary.

The cost of building Marsden A station was $29.8 million. If the same firming up capacity had been provided by hydroelectric capacity the cost would have exceeded $70 million.

When planned in 1964 it was expected that the Marsden A station would operate over its life at about 20 to 25 per cent of its maximum annual energy generation capability. During the 11 years' service to March 1979, it has operated at at an average load of 34 per cent.

Regarding over estimates the 1964 forecase of the energy generation in the 1973-74 years was 18620 GWh. During the 1973-74 year Government imposed a restriction on energy generation of two percent and a further reduction of one percent occurred due to a milder than average climate for the full year. The energy generated was 18122 GWh so when the above mentioned reductions are taken into account the forecast made 10 years earlier in 1964 was "spot on".

In the 1973-74 year river flows were about 10 per cent below average and Marsden A station generated 1119 GWh. The planned maximum generation is 1690 GWh.

Over its 11 years service Marsden A has done the job it was planned to do and in doing so has prevented the need for restrictions in the several years in which river flows have been below average.

E B MacKenzie
Wellington

Domination not a myth

YOUR March 24 issue (The Bryan Article) contends that the overseas domination of New Zealand industry is "a myth".

On the contrary it is very much a *reality*, and at its peril New Zealand ignores the adverse social consequences of such domination and fails to measure them against the purely financial gains emphasised by *NBR*.

The ability to give or withhold finance by remote control carried with it the power to establish projects, and adopt policies of financial benefit to investors in Japan, West Germany or Saudi Arabia but not always of social benefit to New Zealand.

It is not suggested that we should — or could — go it alone. But foreign thumbs pulling plums out of our domestic pie are far from being "a myth". The removal of these plums is contributing to our increasingly strict social as well as economic diet.

W Roy Hill
Waikanae

Politics

Sixty-odd characters in search of an author

by Colin James

"MULDOON bans SUP. Values next, hints PM," said the notice on the blackboard on the third day of the party conference at Easter, inviting people to an "ad hoc workshop" to discuss strategies to deal with the apocalypse.

About 20 Values Party faithful duly turned up to live through the New Zealand libertarian's current favourite nightmare and start building the ark.

In a way that notice sums up the plight of the Values Party.

It is a small, beleagured bunch, battered badly by the vagaries of the electorate and internal factionalism, sure they have X-ray vision into the metal fatigue in the structure of our society and certain as to how to make that structure whole again, blocked only in their mission by the pig-headed refusal of the people to get the message.

Such are the conditions of paranoia, frustration and dedication in the face of huge odds. The self-importance of the mission transcends the reality of the political marketplace.

As president Frank March said in his annual report:

"The Values Party remains the only political party in this country, and one of a very small number in the world, with a holistic, ecological, socialist perspective.

"The political climate in which it has to operate is difficult — issues such as inflation and unemployment are the central concerns of people.

"They are also central concerns of the Values Party, but it is not generally seen as having a role to play in these areas. The task ahead of us is formidable."

Formidable indeed. Yet there they were, 60 to 80 missionaries representing a claimed total membership of 10 times that and a debt hangover of 10 times that again.

The Values Party does seem to have a basic core after all and it does look like it will be around for a bit longer yet, even if it will not be too visible at next year's elections.

So the temptation to dismiss it entirely as a fringe movement, flirting genteely with the rhetoric (and, in some cases, the beliefs) of the mysterious twilight world of the left, should be resisted — not because one need fear (or hope for) a lunge for the levers of power, but because there is still a spark there that deserves at least passing examination.

Passing seems to be the operative word. After the eruption of doctrinaire Socialism of a Marxist kind at the conference last year, the party seems to be getting back to its earlier base of environmental concern.

The Christchurch group who last year put the party through the trauma of a bitterly fought leadership battle, which it lost, and a painful policy positioning, which it won, has largely departed.

Though the "Socialist network" of Values members it succeeded in establishing at last year's conference still exists, the group and its sympathisers are putting their energies into other fragments of the left.

Their influence is not, however, forgotten.

There was a great deal of talk at this conference about "capitalism" and its coming crisis.

Speaker after speaker shared the view of deputy leader Richard Thomson that "we have all the mechanisms of Fascism" in place and of industrial chaplain Ron Mitchinson that "we are heading directly towards greater authoritarianism".

There was much concern about the power of the multinationals and a recognition that in that concern they share common cause with the SUP.

There were echoes of Marx's thesis that capitalism would collapse when the tiny clique of owners of concentrated capital could no longer sell their goods to an impoverished proletariat.

After a member had despairingly regretted "capitalism's capacity to survive", one of the guest speakers, Andrew Macfarlane, argued that when "they" — the large companies — fail to persuade people to buy products they develop, the whole thing will blow up.

There was also much talk of socialism and clear belief that — however much some people were disturbed by such talk last year — those who were at this year's conference were "Socialist" in some sense.

But they are so in a secondary sense rather than a primary sense — they have come to "Socialism" as a consequence of their environmentalism (human and natural) rather than vice-versa.

There was much of the old Values concern about "people" — their dignity, freedom, right to determine their own lives and so on, and the need to avoid sexism.

This last concern, deeply entrenched in an organisation which can with justification be seen as the party of articulate women in their thirties, was the basis of an upset when, at the instigation of the women on the organising committee, men and women were segregated for a workshop session on aspects of discrimination.

This apparently, is perfectly normal feminist practice and was defended on the ground that some women do not speak out when men are present (on subjects such as child care, the boot is on the other foot, as non-member guest Keith Johnston, of Coalition for Open Government fame, pointed out).

But it offended the sensibilities of Values men who try with the utmost earnestness not to be sexist and Values women who value that.

The uproar — genteel by major party standards, but explosive by Values standards — was silenced effectively by a most un-Values piece of authoritarianism from American-accented Byrdie Mann (why do unions attract Poms and the environment movements Americans?) who told them flatly "that is the way the programme will be run". It was.

Thus Values men learned — as all but a handful of men have yet to (painfully) learn — about "positive sexism". And, no doubt, felt better "people" for it.

Which brings me back to the point I was making: that those in the Values Party who have survived the traumas of the past 18 months seem to accept Richard Thomson's view that the ecologists need the Socialists and the Socialists need the ecologists.

The marriage, shaky and suspect, has not been easy. As Thomson said, many ecologists in the party have become inactive because they saw the party as in the hands of the ecologists.

To shore up the marriage,

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Economics

March tax payments drain banking system

Economics Correspondent

THE Government collects the bulk of its annual income tax revenue in one month.

And as many are painfully aware, the month when tax payments hit the hardest is March. That is when most companies and the self-employed pay two-thirds of their tax.

Compensatory deposits, to offset the March tax drain, reached nearly $600 million, indicating that the tax bite was particularly sharp. At the same time last year, compensatory deposits were slightly less than $400 million.

In the 1979 Budget, the Government predicted that it would collect $4560 million in income tax revenue. For that target to be achieved, nearly $2300 million will have to be collected this March quarter.

Less than half of the predicted amount of income tax revenue had been collected by the Government in the nine months to December 1979. We will not know for sure if the Government realised its targeted collection until the 1980 Budget is published. But the size of the compensatory deposits shows that March collections were significantly larger than the $1728 million in the same quarter last year.

Of the $2300 million expected this quarter, about $1200 million would be transferred from private sector purses to the Government's coffers during a two week period beginning March 7, (the final date for terminal payments).

Such a large cash flow to the Government can create a strain on trading banks. As taxpayers dip into their deposits to make the payments, the banks have less to lend.

Yet the demand for bank lending can also grow during March as some clients borrow to finance tax bills.

To mitigate the effects of the drain on trading banks, the compensatory deposit scheme was introduced in March 1978. Its objective was to stabilise monetary conditions, by smoothing out the effect of tax payments on trading bank reserve assets.

The Reserve Bank controls bank lending by requiring trading banks to keep a certain proportion of their deposits in reserve. These reserves can be invested in Government securities, but cannot be lent to private sector borrowers.

If trading bank reserve assets fall below the required level, the banks are subject to a penalty charge.

When there is a rapid outflow of deposits for tax purposes, trading banks may find themselves temporarily unable to meet their lending commitments without cashing reserve assets.

The Reserve Bank frowns on this use of the assets and trading banks dislike paying penalty fees for going below the reserve requirement.

The compensatory deposit scheme allows banks to keep their reserve assets at about the same level during the tax drain period.

The Reserve Bank lodges compensatory deposits with trading banks, based on a specific proportion of the expected net flow of tax payments to the Government.

Then, when tax payments are not so great (in the June quarter), the trading banks repay the compensatory deposits.

Compensatory deposits have been made to trading banks in both the March and September tax periods since March 1978.

As September is the month when companies and the self-employed pay about one third of their income tax, the flow from the private sector to the Government is larger than normal, though not as large as during the March period.

During the September tax period this financial year, compensatory deposits made available to the trading banks amounted to $145 million, compared with $107 million at the end of September 1978. This was the first strong evidence that tax payments in this quarter would be significantly above the year before.

By February 1980, it seemed that March tax payments would be made in a climate of tighter monetary conditions as compared with the previous year.

The statistics for the end of February traditionally show banks and their customers poised for heavy March tax payments — customers by building up the money in their cheque accounts and banks by slowing their lending so that they have enough cash to back cheques drawn for tax purposes.

So between the end of January and the end of February, deposits not bearing interest usually rise.

This year they rose by $142 million, which is not a substantial increase when compared with last year's deposits of $140 million for the same period.

The tightening of monetary conditions is more clearly reflected in annual trends for deposits not bearing interest.

According to the Bankers' Association, there was only a small increase of 2 per cent in such deposits, in the year ending February 1980. Last February year, there was an increase of 20 per cent in deposits not bearing interest.

So it is not clear how much this year's high March compensatory deposit payments are due to large tax payments and how much it has been necessary to compensate the banks because monetary conditions are tighter.

When the monetary base (the source of money and credit creation) is expanding, bank deposits will be increasing. Compensatory deposits to offset tax payments do not need to be so great.

In March quarters 1978 and 1979, the money supply was expanding rapidly and compensatory deposits did not need to be as large a proportion of tax payments as they are this year.

But things are different now. The Government's own spending activities are having less influence on growth of the money supply.

The Government recognises this and has stopped borrowing internally to finance its deficit.

The impact of reduced Government budget activity could have been severely restrictive during the December 1979 quarter if borrowing from the non-bank financial sectors had continued at previous levels.

No new borrowing schemes were introduced in the March quarter. It is not expected that a new Government loan will be announced until this month at the latest.

In the meantime, the Government is attempting to finance more of its spending through taxation and by borrowing overseas.

And the level of compensatory deposits this March suggests that the proportion of Government spending financed by taxation is growing. This means the Government's deficit before borrowing, will be lower this year than it was last, which should please advocates of balancing the budget.

Values grasps at power of ideas

Continued from Page 9

the first two days of the conference were arranged in seminar format (intended originally to include the general public, but in the event almost entirely confined to Values people).

Guest speakers were brought in from outside to talk on technology and unions and feminism and Socialism. Workshops conscientiously discussed the issues raised. The conference began to resemble a quest for an ethos — 60-odd characters in search of an author.

Social scientist Marie Kerr put some perspective into the new technologies. Union consultant Rod Trott told them some home truths about unions (and about what he sees as a determined Government assault to weaken the unions in readiness for sellout to the multi-nationals).

Radical Bruce Jesson and hardline Trotskyist David Bedggood told them they, too, could be really radically left if they wanted (they didn't, at least not on Bedggood's terms).

But if there was a uniting point it was in opposition to the Government's development strategy.

Corso showed an American film about the atrocities committed on economies by multi-nationals and, if anything, that set the tone for the conference.

Values intends to fight the multi-nationals on, as far as I can discern, two grounds — the rape of our resources and of our national virginity. It will ally itself with whatever organisations are also fighting the multi-nationals, whatever their reasons.

In this way, according to leader Margaret Crozier, Values will still be about power, even though lack of numbers and resources have virtually pushed it out of election politics. Values' power, she said, will be the power of ideas.

Of course, ideas have power. But if people want to be powerful they must grasp the levers of power.

The SUP does not have a hope of the controlling levers of political power, but it has its hands on some of the levers of industrial power.

Values, small, diffuse, without a hard doctrine, does not have the SUP's bull-headed single-mindedness. It is likely in the end to resemble a protest group more than in any true sense a political party.

Reporting back from a workshop session one woman delegate — in the tone of a young child who has discovered the naughty pleasure of dirty stories — talked of "sabotage" against big business in the campaign now being planned for later in the year.

But don't rush out and buy kneecap protectors. The fact is, Values people could not bring themselves to sabotage anything but their own outfit — and that, of course, with only the noblest of intentions.

They have not quite done that. But it is now safe to pigeon-hole them for the time being in a slot on the fringe — while the parties that can lust for Government power get on with mopping up the votes they shed.


Rod Trott . . . home truths about unions.


Margaret Crozier . . . virtually out of election.

Ex-REM man knew advertisers as "bunnies"

by Warren Berryman

MAJOR companies have been buying hundreds of thousands of dollars of advertising in magazines produced by REM Printing and Publishing (sometimes known as Direct Publications) in Auckland.

Last week, *NBR* published articles based on a survey of advertisers, and quoted claims by those who said they had spent advertising dollars to support trade union members or charitable causes.

This week, we describe those methods used by REM's salesmen which were criticised by the advertisers we surveyed.

ADVERTISING salesmen from the Auckland-based publishing house, REM Printing and Publishing tend to deal with client companies directly, rather than with the professional media buyers at the ad agencies.

But none of the companies surveyed by *NBR* had met an REM salesman, nor did any of them recall the name of the person from REM with whom they dealt.

All of the companies surveyed said the only contact they had had with REM was by phone and by receipt of a bill and box number showing where to send their money.

One of REM's past employees (at that time, REM was known as Direct Publications) outlined some of the sales tactics employed.

"There were instructions on the clipboard with ploys to secure ads," he said. "We used to describe advertisers as 'bunnies'."

Describing selling by phone, the former employee said salesmen used various assumed names when selling space in different publications.

"We used to phone a company exec and say, 'I rang you last month and you ordered an ad. Now we've got the copy ready and no order.' The poor bloody idiot would be so flustered he'd say 'yes'."

When selling space in *Port News*, this ex-employee said, the patter would run something like this: "You wouldn't mind helping the boys out on the wharf... they look after your goods, don't they?"

Ad salesmen received 25 per cent commission, he said.

Some of the advetising in REM's publications does not seem to be directed at a potential buying audience.

For example, *Port News* carries ads for plastic injection moulders, an item that moves across wharves but is not something likely to be on the average wharfie's shopping list.

Ads for motorcycles appear in *Riding Tall*, a magazine for a disabled persons association.

Some ads in *Port News* are directly related to building good public relations with the watersiders.

The last issue carried an ad from Rheem New Zealand Ltd reading: "Not all drums are for beating, some drums make music. Rheem drums make sales. When they're spic and span, that is ... Rheem drums are made of mighty strong steel. But they can still be gouged and dented, and this upsets our customers. So thanks for the careful handling our containers get from the waterside workers. And if you come across anyone who must beat drums, tell him to join a band."

Some companies which complain of "unauthorised ads" have outlined what they say is the method of selling they experienced. First contact, typically, is a phone call to company executive "A", in which the salesman tries to sell ads for a magazine for a union such as the watersiders or firemen, or for a worthy cause such as the Riding for Disabled Association, the Ambulance Officers Training School, or the University Engineering Students.

They say the salesman takes a familiar approach, mentioning the executive's name frequently.

If executive "A" refuses to buy an ad, executive "B" is called.

Companies claim that the ad salesmen tend to catch them at their busiest moments and often say something to the effect of: "Remember you said you would be advertising in the December issue ..."

The underling or secretary, assuming the ad was previously authorised by someone higher up, hears it read out and gives an approval.

Companies which have authorised an ad in one of REM's publications claim they then find the same ad - often out of date - appearing in other REM publications without authorisation.

"Once you're in, you're in for life," said one businessman.

Some companies spoken to were not aware that their ads had appeared in REM's magazines. Some said they had never even heard of the magazine carrying their ads.

Philanthropic attitudes seem to be a prime motive for companies advertising in *Riding Tall*, a quarterly magazine published as the official organ of the New Zealand Riding for the Disabled Association Inc.

Advertisers surveyed by *NBR* said they felt they were making a donation to the body when they placed an ad in *Riding Tall*.

But association secretary Jane Clare said the association received none of the advertising money, nor any contribution from REM.

Her association received 1000 to 1500 magazines for its members.

A prospective advertiser phoned REM some weeks ago and asked to speak to the advertising manager for *Riding Tall*. When connected, he asked if any of the proceeds from the magazine went to the association. He was told: "There is a contribution made to the organisation as well as the printing costs and everything. Of course, we make a small profit."

If the magazine costs $... to $3500 per issue to produce, assuming that full rates are charged for ad space and assuming that all ads are paid for, and REM's ad salesman gets about 25 per cent commission for selling the ads, REM's gross profit per issue could be as high as $10,000.

LAST week's article on REM listed the official publication of the Institute of Plumbing and Drainage Inspectors, as one of REM's publications.

***NBR* has been informed by Percival Publishing that the magazine is no longer produced by REM but is published by Percival (NZ) ...**

ABC of sales — and share prospects

THE Audit Bureau of Circulations (ABC) publishes circulations of the principal newspapers and magazines in this country.

The idea is that paid circulations, audited on an identical basis, are of value in making advertising decisions.

There has been a small representation of advertisers amongst its members.

But membership is the only way of receiving the semi-confidential listings: which no doubt explains one new member listed in the bureau's most recent summary.

H W Smith Ltd could not be said to lack interest in advertising. But its interest may be more closely connected with the sharemarket implications of the audits.

As the chaps at Smith's study their latest ABC subscription copy, they will notice some interesting trends. For the fifth successive year, the *Dominion*, *Evening Post*, *Christchurch Star*, *NZ Truth* and *Sunday Times* have reported a reduction in sales.

Sales growth for the *NZ Herald*, *Press*, and *Otago Daily Times* is consistently upwards for the same period, and most provincial dailies are holding their audiences.

An indicator of some trend is that in 1973 six weekend papers sold on average, 540,000 copies. In 1979, four papers sold 423,000 copies.

Experts give ultraviolet light the third degree

by Belinda Gillespie

SHEEP in plastic macs was one of the possibilities raised at a seminar on ultraviolet light.

The seminar — grandly entitled "an interdisciplinary evaluation of the role of solar ultraviolet radiation in public health, agriculture, and the materials industries" — called together the scientific and manufacturing points of view on what one participant called "a macro-problem".

Though New Zealand does not match hotter parts of the world for sunlight in terms of heat and duration, it gets far more than its expected share of solar ultraviolet radiation.

The concentrations of ultraviolet light here, possibly among the highest in the world, have implications for human health, agriculture, and the construction and manufacturing industries.

While the DSIR and Meteorological Service have done some work in the measurement of ultraviolet radiation, the practical impact has never been researched.

The seminar was sponsored by the Meteorological Service and the chemical company, CIBA-GEIGY NZ Limited. It brought together experts from numerous disciplines as a first step toward establishing the best area for study.

The Meteorological Service has no records of the ultraviolet content of sunlight here, though it is developing capability to take measurements.

Service meteorologist Dr Reid Basher, said ultraviolet measurements started in Auckland this summer and so far showed 5 to 8 per cent levels of irradiation. But these figures were preliminary, since there is no way of knowing yet whether New Zealand gets more ultraviolet than the generally quoted figure of 4 to 6 per cent.

New Zealand's clean skies could increase radiation by 20 per cent compared with European countries, where air pollution absorbs ultraviolet rays.

During its summer, the southern hemisphere is closer to the sun than the northern, and can expect 6 per cent more radiation in the summer months than the northern hemisphere.

Other contributing factors must still be scientifically assessed — "at this stage there are many such questions and few readily available answers," Basher said.

Manufacturers and technical experts gave evidence that some factor in our climate causes harsh weathering on a wide range of materials.

The wool industry could be losing $3.5 million a year from the effects of ultraviolet, according to Dr Ian Wetherall, from the textiles department at Otago University.

The surface wool of sheep in the field is degraded by ultraviolet radiation to the extent that about 1 per cent of the total fibre is lost when the wool is scoured, he said.

To counteract the problem, the Australians have been testing the feasibility of developing plastic jackets for sheep to protect the top part of the wool fibre from the harmful effects of the sun.

Paints, inks, plastics, textiles, and some furniture seems to fade and rot more quickly here than in sunnier climates like those of Australia and Hong Kong, according to seminar examples.

Over-exposure to ultraviolet radiation has long been recognised as a cause of skin cancer, a disease which affects one out of three New Zealanders.

Just how high the incidence is by world standards is not known, because there is no reporting system for non-malignant forms of the disease.

But malignant melanoma is a serious problem, claiming about 140 lives a year, and making New Zealand the highest-ranked country in the world in deaths for women from this cause and second only to Australia in deaths for men.

The 10 per cent Polynesian population rarely gets skin cancer, so a true rate for the predominately Pakeha population would certainly be the highest in the world.

The initial results of a Waikato survey suggest that other types of skin cancer are even more common, and for some types exceed the rates of incidence in "recognised hot spots" like Queensland.

Ultraviolet also has serious effects on animal health, vets said. All animals can get skin cancer and related diseases, and there is a correlation between these diseases and animal exposure to ultraviolet radiation, they said.

While there was general agreement on the health issues, the scientists at the seminar had reservations about attributing all the examples of materials failure to the effects of ultraviolet.

While admitting that New Zealand has a problem, they suggested it may be due to a combination of factors, including humidity, rainfall, wind, temperature, and salt-spray, as well as the radiation.

The first step in identifying the extent of the probem, will be the establishment of a network of ultraviolet measuring stations round the country, in order to get reliable data.

CIBA-GEIGY, which has offered to put funds into this area of research, saw the next stage as deciding with the Meteorological Service on the actual form of research sponsorship.

The seminar also established a "good dialogue" among the various academic and commercial interests — universities, the Building Research Association, the Meteorological Service, and industries.

Saudi deal: PR dropped from princely venture

PETER V O'BRIEN comments on the financial and business week, appraises the share market and analyses company accounts.

THE formation of the Saudi New Zealand Capital Corporation brought the predictable response from the more xenophobic in the community about selling the country out the back door.

Given the fact that New Zealand needs development funds, and is clearly unable to raise the total in this country, such moves are logical and should cause little surprise. The Arab connection with this venture is probably part of the reason why it has been given so much publicity.

But the announcement of the project was handled badly, and all parties, including the Development Finance Corporation, should use this case to learn about public relations in sensitive areas.

The press statement, which quotes DFC general manager John Hunn, fails to square up with some of Hunn's later statements. And it raises questions which need answers in the interests of an informed community.

That is not to question the basic concept of joint ventures between New Zealand and overseas interests, whether they be Saudi, Japanese, German, or any other country.

Hunn was engaged in meetings last week when I tried to contact him on four occasions, and deadlines wait for neither man nor DFC general managers.

The press statement says that 25 per cent of the capital will be "offered to other New Zealand interests".

On Tuesday, April 8, Hunn said on Network Two that the "other interests" were two New Zealand companies. But he declined to name them, apparently on grounds of confidentiality until the respective companies had finalised their agreement.

Who are the lucky two? We don't know – but will it "be offered", for example to Challenge Corporation and Fletcher Holdings?

And what will happen if either of those companies, or others, turn down the idea? Will the 25 per cent then be hawked around the countryside for any takers? How embarrassing! It would be better to finalise the shareholding before making an announcement.

There is no mention in the press statement, nor in subsequent comments, about debt finance for the joint-venture company.

A company with a capital of $20 million is sizeable in equity terms, but would it be an efficient operation if it failed to gear itself up with debt finance? What will the gearing be?

Saudi New Zealand Capital Corporation is described as an investment company, so it could be presumed to operate on a gearing higher than the two to three applicable in industrial operations although Hunn says additional investment will be by equity which is a strange financial structure (see Page 5).

Will the prince's overseas based investment company, which is to own his share of the corporation provide the debt money? What will the terms be?

Unless the funds are available on favourable terms, which could occur if the investor offset exchange risks and higher returns overseas against political and investment stability for large sums in New Zealand, how will a return be earned? What is the point of using ths vehicle to raise substantial loan funds when other organisations can do the same job, unless other factors are relevant?

The press statement says that the 25 per cent which will be offered to other New Zealand interests will "be underwritten" by the DFC.

What does that mean? Will the DFC take up any shortfall if the proposed partners turn down the offer? Surely it cannot mean that the DFC will "underwrite" in the sense of guaranteeing some return at a given level?

The statement says the proposal was "put to Prince Nawaf" during his visit in October, 1979. By whom? The DFC, or the Prime Minister, or Deputy Finance Minister Hugh Templeton who, along with other ministers, was apparently quite taken by the Saudi royal gentleman?

We read that the Saudi New Zealand Capital Corporation intends to subscribe for shares in new projects in preference to purchasing shares in existing companies. That brings us back to the debt finance question.

An amount of $20 million is a fleabite as a proportion of the investment capital needed in new development projects.

In a radio interview, Hunn said that energy would be one field. That is an industry with massive investment costs.

(In passing, it is a little ironic that the Saudi money is supposed to finance alternative energy in New Zealand. We are developing these expensive alternatives because the Opec countries, which include Saudi Arabia, hiked oil prices regularly while cutting back on production).

Saudi princes, and anyone else for that matter, can decide for themselves where to put their money, and the appropriate return they need. New Zealand investors need to look at payback periods and so on.

Assuming a net 20 per cent return on the capital, there would be a payback period of five years. But that 20 per cent return may not be available for a year or two until the "new projects" come on stream, thus extending the payback period beyond five years.

There are sufficient controls available to avoid "selling New Zealand out the back door", but local people are entitled to know what is envisaged, and how the corporation will operate, particularly when it has DFC funds (public money) invested in it.

And that comes back to public relations, the [illegible] element in this exercise.

Sharemarket surge singes fingers

FINGERS could be burned in the current sharemarket surge, particularly with the rapid rise in stocks connected even remotely with "forestry".

The price hike for Fletcher Holdings is logical, given the company's profitability in the immediate future, and recovery was expected in NZ Forest Products following settlement of the wage issue at Kinleith.

But share prices can go beyond a realistic reflection of immediate and medium term profit. At that point the future is being discounted, and massive earnings are needed to support solid short-term price movements.

In happy days of long ago profit in, say, five or six years was calculated, and a discount factor of 7 or 8 per cent introduced to the equation.

The discount brought the earning rate back to current values. It allowed for the opportunity cost of holding the shares rather than investing funds in alternative interest bearing securities, and for the dividend yield on the shares at current prices.

When interest rates are running at 15 to 16 per cent a year, and inflation is higher the discount applied to future earnings rises to a similar level. An adjustment has to be made for those companies which pay dividends from tax-free sources, to equate with the effective return from a fixed interest investment.

The future is always unknown, but it would be realistic to apply an average discount in the region of 15 per cent to take account of all contingencies in interest rate changes, and other factors.

An average 15 per cent discount rate over six years cuts an earning rate roughly in half when it is brought back to 1980, before allowance for tax-free dividend payments.

The returns on investments will be subject to inflation, so that element cancels itself out.

The New Zealand sharemarket has become divorced this year from a traditional relationship with interest rates. In "normal" times, there is a movement between share prices and the return available on fixed interest securities. As the latter rise the former drop to take account of higher dividend yields on equities.

Many companies pay dividends from tax-free sources, and that has distorted the relationship (as mentioned here several times this year). But tax-free dividends should mean that the degree of movement in equity prices is only lessened when interest rates go up.

In theory there should still be a downward shift in share prices as rates rise, after accounting for the tax-free portion of dividends.

That has yet to happen, and the question is, will it happen, or will the continuing discount of future earning rates in companies push share prices up in the coming months?

If equities react to interest rates there will be capital losses (on least on paper, in the short term) for investors who are buying in now.

If prices continue to discount the future, at what point does the market become oversold, given the discount figures mentioned earlier which effectively halve earnings in six years?

This discussion may sound theoretical, but it relates to a practical, and real, danger. It would be better for the health of equity investment if the market were to ease back this year, rather than push ahead beyond the level of foreseeable future earnings – the arbiter of a share value.

The higher a market goes, the deeper the ensuing downwards reaction. A major market slump in a year or two would come at the time when substantial investment in development projects will be needed (assuming private citizens whether individually or through their savings institutions, will be participating).

And it is no answer to say, as an erstwhile financial writer did in a daily newspaper at Easter, that the chartists and other analysts can point to gloom and problems as much as they like, but that the investors will decide share prices.

Investors will always decide share prices. Eventually the same investors decide that a given price level is unwarranted, whether on the upside or the downside.

At that point they realise what the analyst has known for some time, and react accordingly.

The higher the market goes in present conditions, the greater will be the fall unless we see an unlikely large reduction in interest rates.

O'Brien on business

Analysing annual accounts: Dunlop (NZ)

DUNLOP New Zealand's inflation accounting techniques answer many of the questions which arise from company accounts.

The 1979 annual report shows the effects of inflation on the company's business, particularly the influence of substantial price rises for imported raw materials.

Dunlop records its assets at current replacement cost. A comparison of historic cost and CRC for "raw materials, finished, and partly finished goods" is given in the table.

The CRC cost is higher than historic cost in all categories, due to price movements between purchase (or manufacturing) date and the December 31 balance date.

But figures also show that Dunlop was carrying a much higher volume of stock at the end of 1979 than in the previous year. A comment in managing director John Hammond's review of operations confirms that point, but unfortunately gives no reasons for the change. Hammond says: "Average funds employed during the year changed little from the 1978 level, but inventories were higher at the end of 1979."

Total assets were $49.4 million in historic cost terms in 1979, compared with $43.3 million in 1978. In CRC terms the figures were respectively $64.3 million and $56.6 million.

The major difference between the historic cost and CRC figures occurred in fixed asset valuations over each year, but stocks were a higher percentage of total asset values under both accounting systems.

They went from 29.3 per cent in 1978 to 36.4 per cent under the historic cost convention, and from 23.4 to 29.3 per cent under CRC. Since CRC takes account of changes in all asset and liability values, Dunlop was carrying substantially higher stocks in 1979 than in 1978.

The figures answer the volume/price change question, but they raise another. Why have stocks risen to such an extent?

Unfortunately the report fails to answer that question, although the annual meeting last Thursday, (after this was written) may have been told.

Dunlop's inflation adjusted accounts are prepared on the standard of the United Kingdom Accounting Standards Committee, and therefore differ slightly from the provisions of the New Zealand Richardson Committee report, but they provide a useful guide to the impact of inflation on group operations.

	Historic cost	$'000	Current replacement cost	
	1979	1978	1979	1978
Raw materials	5,038	2,965	5,091	3,203
Partly finished goods	1,638	1,457	1,736	1,497
Finished goods	11,287	8,308	12,067	8,563
Total	17,963	12,730	18,894	13,263

The effects are seen in the profit and loss account. Profit before taxation was $7.9 million on historic cost ($6.4 million in 1978), but fell to $5 million ($4.7 million) after application of CRC principles.

The pre-tax figure gives a better comparison than net profit, because most companies preparing inflation adjusted accounts make no allowance for a tax change.

If the Government accepted inflation adjusted accounting, there would be a logical reduction in the tax liability. For example, Dunlop's taxation was 42 per cent of pre-tax profit under historic cost.

Application of the same monetary tax liability to the CRC figure lifts the relationship to 66.5 per cent. That proportion is useful in illustrating the present problems with inflation, but is unlikely to be imposed if CRC were accepted as the basis for calculating tax liabilities.

(Conversely, it would be interesting to see the tax liability, if Inland Revenue's share of profit were also adjusted for inflation between the time of earning and the time of payment).

CRC in Dunlop's accounts gives an interesting (but theoretical) result in terms of the shareholders' "ownership" of their company. The proprietorship ratio (shareholders funds to total assets) rises from 50.4 per cent (historic) to 61.8 per cent. The change arises from the provision of the "capital maintenance reserve" which is "a reserve . . . to reflect revaluation surpluses and deficits arising from changes in the prices of fixed assets, inventories and monetary working capital offset by the gearing adjustment".

The change is theoretical, because realisations of assets, which under historic cost may give a "capital profit" are already reflected in the capital maintenance reserve, assuming that the revaluation would be achieved on disposal.

Dunlop has presented another informative report, although more information on inventory volume would be welcome. The group appears to be diversifying slowly away from reliance on tyres, a difficult industry with over capacity, and moving more towards other aspects of the "leisure" industry.

Bass's book on credit management embraces local situation

CREDIT management in New Zealand is a comparatively new branch of corporate activity, and is well behind the sophistication seen in the United States and in Britain.

The New Zealand Institute of Credit Management was founded in 1973, and is an affiliate of the New Zealand Institute of Management.

The United States National Association of Credit Management has been operating since 1896, and the United Kingdom Institute of Credit Management was born in 1939.

Credit Management, by R M V Bass, credit and finance manager of the British company GKN Sankey Ltd, should be of interest to people responsible for commercial credit in this country.

The book has a British bias, but the general principles are relevant here. Chapters on the pitfalls in export credit management are valuable for our manufacturers who are increasing their export activity.

Bass describes his approach as emphasising the *positive function* of credit management which is "vital to the protection of assets but also contributing to profitability".

The first half of the book examines commercial credit management in the broad sense. The emphasis is always on the profitability aspects of the credit function, plus its relationship to liquidity.

Bass covers the need for the credit manager (and his department) to have a clear-cut statement of the company's credit policy, and to work in close liaison with the sales force. The latter are one of the prime sources of credit information through their work in the field, and their association with many firms, including competitors of the debtor or potential debtor.

Risk assessment is treated as a vital part of the credit department's work.

The assessment of risk in Government controlled or Government-backed companies has lessons for New Zealand managers, because there is no guarantee that the Government will come to the rescue of such organisations. Bass says it is an untenable argument to think that there is no risk.

Referring to the British companies under Government control, either directly or indirectly, he says that many would have collapsed where they are under private control. Some are under Government control because they collapsed.

Apart from the well-known cases of the British Steel Corporation and British Leyland, the latter financed through the National Enterprise Board, two smaller organisations are given as examples.

In 1969 Beagle Aircraft had a receiver appointed. The company owed over £1.2 million to unsecured creditors who to a large extent had relied on Government. Public funds of £6 million were lost.

In 1977 the National Enterprise Board invested $54,000 in Hivent Ltd, a small air pollution equipment company, and took 25.9 per cent of the equity. The company was insolvent within six months, and the NEB refused any more assistance. Bass says that suppliers who had been encouraged to give credit by the sight of Government money being injected were "left in the lurch".

The general chapters on the nuts and bolts of credit management will be familiar to most practitioners here, but they may glean valuable assistance from the lengthy exposition of export credit techniques.

Bass is scathing on the financial information available from many countries, particularly in South America, Africa and Asia, areas which include several of New Zealand's newer customers.

Under "other countries" he says: "This embraces Australia, New Zealand, South Africa, Japan, where company accounts are obtainable reasonably easily, and all the developing nations of South America, Africa and Asia, where balance sheets are generally hard to find. Even when they do come to hand the credit analyst must not place too much reliance on them for two reasons. Firstly, as in many European countries, accounts are prepared because the law demands them, and this becomes a tax avoidance exercise. Secondly, the standards of accountancy and auditing fall far below those of Western countries".

The lack of information on export credit with Middle Eastern countries is a curious omission from a work which is otherwise comprehensive, particularly as it was written in 1979.

It is difficult to believe that all transactions with Arab States are conducted on the lines of the fabled sheikh's servant with his large suitcase of cash.

When dealing in export markets, it is essential that documents and terms are clearly understood across language barriers. "Bankers never grow tired of telling exporters about the high percentage of documents containing errors".

And the first rule of writing any necessary collection letters must be "to write in the buyer's language", a concept which may seem just as strange to New Zealanders as to the English, both of whom have an idea that the Tower of Babel was a short-term aberration from a planet of English-speakers.

If the exporter wants to assess the buyer's credit worthiness from perusal of the latter's accounts, Bass conveniently includes cross-language terms between English, French, German, Dutch, Flemish, Italian, Danish, Swedish, Spanish, Norwegian, Portuguese and Finnish (The New Zealand reader may prefer Japanese, Malay, Chinese, as well, but the book is published mainly for British managers).

So the next time you see "*Verbindlichkeiten Gegenuber Kreditinstituten – Davon Durch Grundpfandrechte Gesichert*" remember it means "Bank loans secured by mortgage", in German.

Credit Management, R M V Bass, Hutchinson, 1979, $18.40.

Overseas trade

Researchers try to revolutionise fertiliser usage

by Warren Berryman

WINSTONE Ltd and Dalgety (NZ) Ltd are joined in a research project into phosphate fertiliser that could radically alter the whole fertiliser industry and change the country's trading pattern with South America.

Rock phosphate is the keystone of New Zealand's pastoral farming.

At 1.36 million tonnes a year, valued at $69.7 million, rock phosphate is this country's second-biggest import after oil.

Phosphate is supplied by the British Phosphate Commission.

But traditional supplies may be in jeopardy. Ocean Island deposits might have only three years to run. Nauru might last a further 15 to 20 years. And the future of the Christmas Island phosphate mining venture is in doubt.

Imported phosphate is treated with sulphur (imports of 258,000 tonne a year valued at $9.45 million) to make superphosphate fertiliser.

Superphosphate prices rose 23 per cent the other day.

The Winstone-Dalgety research project is out to prove that rock phosphate can be applied direct, after being crushed and pelletised, but not made into superphosphate.

The key to the venture is to find a phosphate rock that is more reactive than the phosphate we get from Christmas Island, Nauru, and Ocean Island.

Winstones brought in 20 tonnes of phosphate from Peru in 1978 and put it through its pelletising plant at Wiri.

Phosphate from Peru, like that from the Chatham rise, Tunisia, and North Carolina, is soft and reactive, unlike the hard phosphate from Ocean and Christmas Islands and Nauru.

Field trials with this material over recent years carried out by Massey University have shown encouraging results.

Glasshouse trials, conducted by Professor J K Sayers at Massey, showed that the pelletised rock compared favourably with single superphosphate in terms of plant response.

Field trials have been run over three years.

The Peruvian phosphate rock seems to be giving a similar yield to single superphosphate applied at an equivalent phosphorous rate.

Dave Udy, of Winstones, said there might be an added advantage to the directly applied phosphate in its residual qualities which might mean that it will mean less frequent application -- maybe only every two years.

The pelletising plant turns out pellets of various sizes to insure an even wide fan when spreading. When wet, the pellets instantly break down into a fine powder to soak into the soil.

In sulphur-deficient soils, sulphur might be directly applied. The sulphur used in the manufacture of superphosphate must be pure and is therefore imported.

New Zealand has quantities of volcanic sulphur. But mining operations have run against a snag with fine particles in the sulphur that are difficult to separate out.

But this New Zealand sulphur, while perhaps never suitable for making superphosphate, might be good enough for direct application to the soil.

New Zealand has its own phosphate -- phosphorite nodules 300 metres under the sea on the Chatham rise. This resource has been cautiously estimated at 900 million tonnes.

But Udy points out that the Chatham rise phosphate is low in phosphorous – 10 per cent versus 14 per cent for North Carolina phosphate and 13.5 per cent for phosphate from Peru. The phosphate contained in superphosphate is 9 per cent.

The advantages in using the rock substance for direct application are:

- The capital plant and operating expenses are small and the technology simple;
- It carries more phosphorus per unit of weight of fertiliser (13-14 per cent compared with 9-10 per cent in single superphosphate);
- It is non-corrosive.
- Winstones sees a good market for the product in hill country farming areas where the soils are generally acidic and this soil condition increases the efficiency of rock phosphate fertilisers.

Udy said the pelletised rock product would not replace superphosphate in this country, but would be complementary.

Trials on the fertiliser are expected to go on for a further three years. But Udy points out that direct application of rock phosphate is not new.

The Russians have been using rock phosphate for direct application for 30 to 40 years, he said.

The International Fertiliser Development Centre, an American agency located in Alabama set up to help developing countries, has shown interest in the Winstone-Dalgety project and given some advise, Udy said.

Winstones is plumping for phosphate rock supplies from Peru.

The British Phosphate Commission gets a $15 a tonne subsidy for its phosphate from the Government. Winstones would hope to receive the same subsidy, Udy said.

Peru, a long-standing importer of New Zealand primary produce, has periodically complained of the trade imbalance in this country's favour.

New Zealand exported $15.4 million worth of goods to Peru last year but our imports from Peru were only worth $240,000.

Peru has not taken up offers from the Trade and Industry Department to come here and find a market for its goods. But Peru in the past has based trade deals on reciprocation, like selling Australia a malodorous load of fish meal in return for access for Australian exports.

Buying phosphate from Peru might help redress the trade imbalance and open a market in Peru for goods -- in particular dairy products.

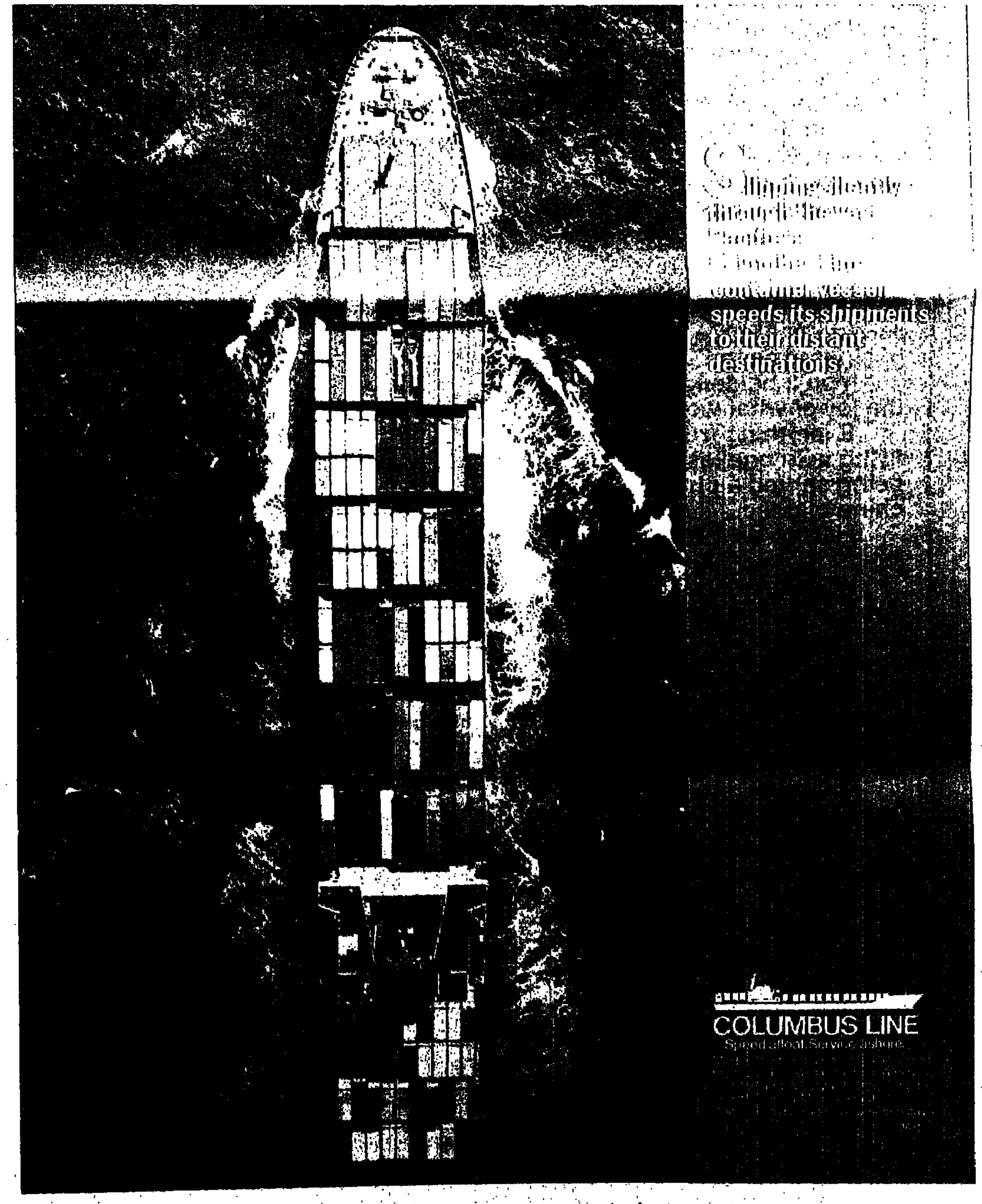
Winecaters for Chinese palate

by John Draper

A WINE to suit the Chinese palate, developed in Coromandel, will feature at FoodAsia, a four-day trade fair in Singapore.

The Export-Import Corporation is organising the stand for 10 firms, including Totara Vineyards Ltd (which has developed the Chinese wine); Nosien Vineyard's range of fruit juices and fruit wines; McGregors Liqueurs, Ernest Adams' cakes and health food products; Hansells' soups and flavourings; Nelson Packhouse's canned fruit and vegetables; Griffins' biscuits; Variety products' sweets; Lane Latimer's spices; and Ratcliffes' packaging machines.

New Zealand, with the largest stand, will dominate the fair, from April 15-18, regarded as one of the most important in the food business.



Industrial relations

Maintaining economics through industrial frame

THE Government's *overriding concern in industrial* relations is the economics of maintaining our international competitiveness, says Labour Minister Jim Bolger in this first part of a two-part interview with Colin James on the Government's medium and long-term industrial relations strategy.

***NBR:* Is industrial relations a problem, or *is it a symptom of* something deeper?**

Bolger: I think it's a problem. in terms of confidence to invest, confidence for businesses to expand, it's a problem in terms of people's attitudes.

There is a concern in the community that we don't have as good industrial relations as some of our competitors and this is an additional cost that we bear in New Zealand and unless we can improve our industrial framework, unless we can improve the working of the system, this is going to be to New Zealand's detriment, competitively, internationally.

In that context it is a problem.

So it's primarily an economic issue rather than a human one?

Bolger: There is not a groundswell of opinion that sees the trade unions now as fighting for some new *social* goals as there might have been in the early part of the century.

It's now seen much more clearly in economic terms. Bad industrial relations are seen as an economic cost.

Do you see it that way?

Bolger: Yes. Clearly the major *element* in concern about industrial relations is the economic cost of unnecessary disruption.

You don't see the disruption as being symptomatic of a deeper problem?

Bolger: No, though it's portrayed by certain elements as part of a struggle to gain a greater share of management, a greater share of the economic resources of a company or whatever and that's portrayed as part of a social evolution. And there are those within the trade union movement who are active in this area.

So you see your role in a sense as *maintaining* the existing social order when there are forces within the union movement which want to change it?

Bolger: Well, if you mean by maintaining the existing social order that there is no change, no, that's wrong.

What I see in industrial relations is a progressive growth in attitudes, particularly in the field of employees being more involved in the managerial decision-making side of the work, and closer to the workforce than someone sitting on the board of management or the board of directors of a company.

This clear distinction between who makes the decisions *and who caries them out* will probably go.

I'm talking about encouraging workers to take a more active interest in their total workplace, so they don't just see it as a pay packet on *Thursday, but in terms of* providing them with job opportunity and if the plant is profitable, a better pay packet on Thursday, so that they feel they are part of a total entity rather than just as a cog.

What do you see as the legitimate role of unions?

Bolger: The legitimate role of unions is clearly one to ensure that their members are treated fairly in a number of ways — in terms of the award, what should be the rates of pay and conditions of work and all that sort of thing.

They also have a legitimate role to look further and try and see which way the particular management structure in the workplace is developed and *how it might be improved.*

You've got to try and get past a union attitude which says that those people on the board or in management are agin us, to an approach which says: "Well, look, there is *development in terms of our* role and our place as employees in this particular plant. How do we secure our position and improve it?"

And that's done on a consultative and negotiating base and I think a development in trade union attitudes that sheds to a very large degree some of the inherited approaches from the last century and the early part of this century.

We've got to ensure that it's not seen as some unfortunately still see it, as a class war.

Let's define now what's wrong with the present system.

Bolger: I think what is wrong is inherited in many ways. We have got in New Zealand craft-based unions. So we have union structures which go across the country picking up trade unionists who are employed at a similar skill but an entirely different environment and the more complex the *economy gets the more* unrealistic that sort of concept becomes.

I think we've got to look much more toward industry unions, particularly for our larger industries, so the *employees in a particular* industry have a feeling of affinity with it and if their industry is doing well, they can anticipate that they will be a bit better than the next bloke, so that there is some value in being associated with a profitable industry that's working with a trouble-free record.

We also have a reluctance in New Zealand in disputes to refer to arbitration.

In minor disputes, they'll allow me to set up an ad hoc arbitration system, a compulsory conference or whatever. But in major disputes over wage rates there is great reluctance.

I think we've got to get trade *unions to accept that arbitration* is a fair method.

Do you see employers as having faults as well as unions?

Bolger: Yes, I do. But I think it's fair to say, however, that the situation is that normally the break-off in disputes rests with the trade unions and I suppose that's understandable when you look at the system.

But employers are often *inadequately prepared to deal* with able trade union advocates. They are dealing with experienced men who know their job very, very well and I would be surprised if some of the difficulties were not due to the fact that some of the employer assessors are not really briefed adequately for the job and that they don't really know what's going on in other areas and they are looking at their role with far too narrow vision.

Environment

Coastal zone planning attempted by disparate bodies

by Belinda Gillespie

THE parlous state of planning for New Zealand's coastal zone has been *highlighted* by reports from the Government's two environmental watchdogs.

The Environmental Council (a non-statutory body of 16 members, appointed by *Cabinet) called* for the application of planning to the whole coastal zone, and not to separate land and sea concerns in a preliminary review of coastal planning.

Future pressures on the coastline include energy-related development: petrochemical industries; port expansion and development; mining operations; tourism and resort development.

The present framework for planning through the Town and Country Planning, Public Works, Local Bodies, Reserves, and Water and Soil Conservation Acts, will lead to its own demise, unless objectives and goals *for* that framework to serve are clearly set out, the council declared.

Apart from Section 3 of the Planning Act the country lacks regional or national guidelines for coastal development, said the council.

"As a result the system is actively engaged in discrediting planners at the regional and district level for failing to set their own standards or somehow assume satisfactory guidelines."

The country should be determining coastal guidelines, recognising that planners, developers and Government agencies all have a part to play.

"Regional planning is not working as intended partly because of a lack of acceptance and parochial attitudes which can still over-ride wider considerations in the absence of overall guidelines," the council said.

The character and significance of coastal resources needs to be much better understood, it said. "It is apparent that the coastal data base is inadequate for *regional, and sometimes even* project planning."

Wave, coastal and estuarine behaviour information is familiar to a relatively small group of scientists, and many developers and local body staff remain unaware of it.

Meanwhile, "the fragmented, unco-ordinated, dispersed and incomplete information available makes it difficult to apply 'coastal' legislation except on very general principles."

The council stated that the 1977 Town and Country Planning Act had strengthened the ability of planning authorities to deal with coastal planning — providing there was the political will at all levels of Government: the technical competence to suggest solutions; that policies are backed by financial commitment; and that society values the coastal environment, and translates its values into policies.

These general problems have been pin-pointed by the Commission for the Environment's study on the Poor Knights Islands Marine Reserve, and its recommendations regarding the *establishment of marine reserves* — one element of overall coastal planning.

The concept of marine reserves is relatively new. The Hauraki Gulf Maritime Park Board's application to have the area around the Poor Knights Islands declared a reserve is only the second since the Marine Reserves Act was passed in 1971.

Marine reserve proposals are not usually referred to the commission, but in this case the Ministry of Agriculture and Fisheries wanted an independent agency to resolve conflicting interests. An environmental impact report was prepared by the ministry, which was then audited by the Commission for the Environment.

Recommending the establishment of the Poor Knights Reserve, the commission pointed out deficiencies in the Marine Reserves Act.

In comparison with the Reserves Act 1977, which provides for different types of land reserve, the Marine Reserves Act was considered too exclusive. Under the terms of this act, areas may be set aside only for scientific study — whereas the aim of a reserve at Poor Knights Island was "to protect the underwater flora and fauna from recreational *excesses and commercial exploitation* and to enhance the opportunities to recreational fishing and sightseeing."

The Marine Reserves Act, the commission concluded, needs substantial revision so that marine reserves can be created where recreation is the primary aim.

A 1977 amendment allowed the Minister of Agriculture and Fisheries to permit fishing within a marine reserve, weakened the act, and introduced confusion into its aims and ideals. Rather than amend the legislation to suit particular requirements, "new legislation modelled on the Reserves Act 1977 should be promulgated . . .".

Dr Philip Tortell, a marine biologist at the Commission for the Environment, said setting aside areas of the sea for a specific purpose is contrary to most New Zealanders' understanding that the coastal zone is *public property*.

But "this attitude is not realistic — the concept of land use planning must be applied *to marine resources*", he said, pointing to the many agencies and statutes involved in implementing a scheme under the Town and Country Planning Act.

Difficulties in administering the Marine Reserves Act are caused by the division of responsibilities for the coastal zone. The Ministry of Agriculture and Fisheries responsibilities overlap with those of The Department of Lands and Survey and the Ministry of Transport, and all three will have to be involved with planning for reserves.

Profile

Ron Guthrie: a "silent and deadly operator"

by Rae Mazengarb

RON Guthrie, a general manager of McSkimming Industries Limited, has been described as a "silent and deadly operator".

The observation is a sincere form of flattery. It denotes a quietly spoken – some would say low-profile – man with a keen perception . . . "an ability to see clean into something".

A close colleague confides that Guthrie has a quick and agile mind. He is keen to identify the cause of problems and just as able at finding solutions.

Described as "fiercely loyal to the troops" in the working environment, he is always ready to offer guidance where his help is requested. Otherwise he is a firm believer in freedom of thought.

He cannot abide fools – and he will take the Government to task on important public issues. But he does so constructively, by providing an alternative solution.

He leapt into the debate on the restructuring of the economy last year, as a member of the New Zealand Planning Council, and stated that the Government had placed too much emphasis on exports and too little on the real possibilities of saving foreign exchange by efficient import substitution.

He argues that if the major customers for our agricultural goods no longer want them, New Zealand cannot make a living by giving away its main product. "If the product doesn't sell," he said, "it must be changed".

Guthrie insists that New Zealand's export growth strategy is based on the wrong premise: "To export for affluence is great – but to export for survival is stupid."

A self-confessed "ex-Pom," Guthrie holds to the theory that if people are going to maximise their career potential, they must be prepared to move.

"It's often been said that after three to five years in a job, the benefits begin to accrue more to the company than to the individual," he said.

He has averaged about 6½ years per job, including his present position which he took up in 1977.

A one-year stint as a production consultant has helped cut down the average.

Ron Guthrie . . . "an ability to see clean into something.

Outside his own work, he has:

- Served as chairman of the Ceramic Industries Association, and was involved as president in the four-year effort to produce the first industry study report;
- Spent four years on the manufacturing and processing committee of the National Research Advisory Committee;
- Served as president of the Southern Canterbury Manufacturers' Association;
- Been the first chairman of the Southern Canterbury Regional Development Council – "the list is so long it's boring".

Aside from the Planning Council, he has now restricted his activities to the Otago-Southland manufacturers.

A family man (remarried with two young children), Guthrie's personal interests range from exploring old mining sites, to carpentry, metal work and wine-making.

Born in Birmingham in 1924 and educated at grammar school, followed by evening classes at Birmingham College of Technology (similar status to a university here), Guthrie served his engineering apprenticeship with Britain's General Electric Co Ltd.

In that period, he spent five years as a radar mechanic for the Royal Air Force. Some years later, aged 32, he had a chance encounter which led to his resignation as works manager of Jury Holloware in Britain's Brierley Hill to start life Down Under.

"Well, that's to say, the encounter wasn't by chance, but I went to a meeting . . . (the manager of one of Radiation's manufacturing companies in Britain) asked if anyone at the meeting knew a young production engineer who would be interested in going to Dunedin, New Zealand, to take charge of production at their plant."

Guthrie said he was interested and after spending a few months with the Radiation factories in England, came to New Zealand in June 1956.

"I found that New Zealand workers were just as good as those in Britain, and after spending a month or two within the company learning and looking, I started to put into action various short and medium-term plans which the board agreed to," Guthrie recalls.

"First and foremost we obtained the union's co-operation and introduced work study, work measurement and methods study into the company in order to increase productivity."

Production increased about 50 per cent and designs were modified and product range rationalised to enable cost reduction.

By 1961, Radiation had moved from third place to be the biggest maker of ranges in the country.

Guthrie was responsible for planning and implementing production of what was known as the Thor semi-automatic washing machine. The tooling – which cost in England around £120,000 – was done for £12,000, including purchase and installation of plant. Of 18 modifications recommended by the company, 17 were adopted by Britain.

After nine years with Radiation Guthrie (then joint managing director) was asked to step down for a year to works director. The English board wanted a marketing type as chief executive.

"I didn't want to be number two in an organisation that I had played a substantial part in building up." So he resigned (though he still admits to having a "soft spot" for Radiation).

He got a job with Associated Industrial Consultants Ltd, of London, as a production consultant, doing two jobs for them in 1965 – one in Kaiapoi, the other in Lower Hutt.

"I found out the more people have to pay for consultancy services, the better they think the result will be . . . and management feels obliged to take notice," Guthrie said.

So Guthrie picked the best brains from within the particular firms and communicated their very constructive ideas to management.

But living in Dunedin at the time, he got tired of commuting to Lower Hutt.

One of 187 applicants for a top position at New Zealand Insulators, Guthrie was chosen for a job which suited him and his background.

By the time he left, 11 years later, the ailing company he found had become highly successful and Temuka ware was not just "on the road", but also on the seas selling well in both the United States and Australia.

Just before Guthrie left, he was present at the opening by then Regional Development Minister George Gair – of factory extensions for stoneware production.

The opening was of special significance, because Guthrie had served as first chairman of the SCRDC and had presented the first regional resource survey undertaken by the Regional Development Council to the Minister.

But it was time to move again. The new owners of McSkimmings were determined to realise the company's potential, and with their general manager just about due for retirement, they approached Guthrie in 1977 "with an offer which I didn't refuse".

"The job has turned out to be quite different from the other jobs which I have had, in that virtually the whole of the time I have been associated with McSkimmings, the depressed state of the building industry has meant the company has had to struggle for sales," he said.

The great advances at McSkimming over the last three years, is part of another story. Suffice to say, Guthrie had more than hand in it.

His Planning Council involvement was a natural development from Guthrie's past activities. His capacity to observe and learn along with his frank manner, ably equips him for the task of formulating strategies for the future.

Even as chairman of the SCRDC, he recalls the first meeting, brought about through Trade and Industry, with ACCORD (the official co-ordinating committee on regional development).

"Frankly, I was appalled by their negative attitude and their condescending manner toward us 'country cousins'. Some straight talking improved things substantially."

He confesses that he is still surprised that many people – specially officials – are talking about exposing industry to competition "at a time when the world generally is becoming protectionist".

He sticks to the belief that manufacturing in future should develop on a smaller scale. High freight charges necessarily suggest that manufacturing should take place in units close to the market place.

But, he doesn't immediately subscribe to the formula "fortress New Zealand".

"The more specialised we become, the more dependent on world trade – but we are not well-placed for low-cost trade," Guthrie said.

A gloomy thought? Guthrie doesn't think so. He said if we start practising self-reliance as a country, we'll do all right.

Profile

Insulator firm switches on to successful track

by Rae Mazengarb

NEW Zealand Insulators Limited – the Temuka subsidiary of Cable Price Downer Limited – had nothing much going for it about 15 years ago.

The company's output was mainly in insulators. Other products were in danger of becoming obsolete.

The company didn't have its own sales system or even a bank account. There was a manager who had the wages given to him every week. And the company plodded along, supplying units which another CPD subsidiary took for distribution.

Today, after some dramatic diversifying, the company is not only the successful manufacturer of some of the best circuit protection equipment in the world, but its Temuka Stoneware Pottery is a household name.

A buoyant business while others are making hard of the downturn, the company's 1979 sales were the highest ever recorded.

Exports continued to increase (pottery to the United States, electrical products to Malaysia and Trinidad, insulators to Kuwait). Hardly the struggling little company it used to be . . .

General manager of New Zealand Insulators from 1966 to 1977, Ron Guthrie recalls that the company – like other subsidiaries within the CPD Group – had a great deal of independence, but had to make a good case when it wanted to borrow money or get extra investment from the group.

"At the time we started to make Temukaware, there wasn't a great deal of money available and we had to do it largely from our own resources," Guthrie said. It was probably a good thing "it made us frugal".

Temuka . . . Guthrie's brainchild.

Once he had convinced chairman Bill Steele (also director of CPD) that the stoneware project had possibilities, they had to work out how to do it, and how to introduce it to the marketplace.

"My concept was that of a quality product with the natural, almost rustic look, appealing to the more affluent members of the community," he said.

"To be honest . . . something as good as or better than the Arabia range from Finland."

The industrial porcelain body with which the company made insulators was ideal for the manufacture of stoneware.

They had the technology to do once-fired work in glazing (but had to convince the production people that they should do it).

Two staff members, from English pottery firms, were expert at making tableware.

So far as other resources were concerned, the company had little in the way of traditional pottery manufactured plant. It didn't have a designer, nor a modeller, nor a mould-maker used in such work.

Then it found Jack Laird, now acknowledged as one of New Zealand's foremost designers and potters, and a personal friend of Guthrie.

"We started by making mugs and we made the mugs almost the same way as we made insulators," Guthrie recalls. The company is still doing it. But as things developed, production plant has been added and several pieces are made by casting.

But the characteristics of the Temuka insulator body provided the basis for a quality product in the form of Temuka stoneware. And it was promoted as a "quality" product.

Then sales manager – now general manager – Ross Murray, took up the challenge of marketing the new product.

Rather than try to sell direct, the company distributed through traditional channels. Finding it could compete on price with imported stoneware, it went on to build up what is now the second biggest pottery business in the country.

Guthrie said a great deal of Temuka's success stemmed from the fact that people in the trade genuinely wanted a New Zealand-made quality product.

Continued on Page 22

Production firm turns to marketing

FOR Dunedin-based McSkimming Industries Limited, 1977 was a disaster.

In 1977 the company – then 26-years-old – decided to undergo major technological change.

It lost around $750,000 in the process, but now prides itself with making some of the best sanitaryware in the world.

For the first time in 20 years, McSkimming is producing enough to meet the demands of the market. Previously the company had to allocate.

Lead times – once more than 25 weeeks – are now virtually non-existent.

The company had spent comparatively little money on its sanitaryware plant at Benhar, but in 1977 it decided it was time to change all that. The company considered a change from the manufacture of earthenware to vitreous china, a stronger and more hygienic product.

"Frankly it was a disaster", recalls Guthrie. "Production did not reach desired levels, the marketplace was short of product and we lost a lot of money."

In early 1978 the manager at Benhar resigned and Guthrie found himself taking charge of the factory for six months, assisted two days a week by McSkimming chairman Tom Taylor.

Guthrie takes up the story: "When I went to Benhar we were obviously in a very difficult situation and I decided that there was nothing to be gained by trying to hide this. So I called a meeting of all employees and told them what the situation was – that we weren't making enough pieces, that we were losing money and that we had to improve production and make a profit, otherwise our financial backers would be backing out.

". . . As the days went by, production lifted virtually every day. It sounds easy, but it wasn't. We had to make modifications to the process, we had to move people around, we changed the bonus system, and we had some assistance from Doulton Australia."

Within six months Guthrie was able to hand the plant over to a new factory manager.

Production had doubled in the period to about 1400 pieces each week (and proceeded to rise to 8000 first class pieces each month by mid-1979).

The 1978-79 year turned out to be a good one for the sanitaryware division in spite of a nerve-wracking start.

For the first time the company made as many pieces as the market demanded.

When the bubble burst late in 1979, even Guthrie was surprised.

Orders dropped and there were thousands of cancellations.

Merchants, coping with their own liquidity problems, found themselves overstocked.

The other side to McSkimming's operation lies in the refractories, bricks, pipes and pottery.

Unlike the whiteware, which is labour intensive, the heavy clay products are capital intensive.

The depressed state of the building industry has taken its toll on sales. Funds have been difficult to obtain, either from borrowings or in company.

Guthrie insists that despite the handicaps, the company has come a long way: "It was a production-oriented company and now it is at least half-way to being a market-oriented company", he says.

The company has recently concentrated its technological development on servicing the aluminium industry. The majority of sales in the area are going to the aluminium smelter at Tiwai, and "at the moment we are sweating on getting an order for a large number of pavers for the smelter at Bell Bay," Guthrie says.

The biggest problem for the energy-intensive industry like a brick factory is cost of energy.

Without access to natural gas, and with LPG supply problems in the South Island for conventional industry, energy is a pricy component.

"It's wrong to assume that electricity is a substitute", says Guthrie although he admits the differential tariffs will help.

"The deal offered is getting close to the right sort of figure".

But not close enough. The company is converting its Abbotsford brick factory to coal – with the aid of a DFC energy conservation loan.

Guthrie believes the conversion will save the company something like $350,000 each year – a bonus which must help the company's finances.

Continued from Page 21

But it wasn't simply a matter of making and selling. Guthrie recalled the production of the first steak plate.

Sales staff at first refused to take it out and promote it. "A steak plate? It wouldn't sell. It wasn't what people were looking for," they said.

Guthrie told them he didn't care whether they thought it would sell or not. He told them to just go out and sell it. It is now one of the biggest sellers in the range.

Temuka was Guthrie's brainchild. But he frankly admits Jack Laird's influence on the stoneware cannot be over-rated. As well as being responsible for the shape of the product, Laird was heavily involved in the glazing and overall presentation of the product.

Regional development assistance and exports suspensory loan assistance were gained for Temuka stoneware.

Just before Guthrie left the company in 1977, the then Regional Development Minister George Gair, officiated at the opening of the factory extensions built for stoneware production.

Temuka has continued to grow in popularity. The first container of pottery was shipped to the United States last year, and marketing methods in Australia have been recently revamped.

But stoneware was only part of the success. It was also moving into other products, such as Stotz circuit protection equipment, applying the overseas technology here under licence.

Guthrie also initiated deals enabling the company to make HRC fuses.

At that stage it was clear the company's original product was fast becoming obsolete. But they had to persuade the overseas concerns that the local company had the expertise to manufacture the product.

Something of the same development pattern was followed at Temuka as at Guthrie's previous employment: work study, incentives, methods improvement programmes, job instruction, job relations were all carried out, with the result that sub-

stantial improvements in productivity were achieved.

And then: "we were able to look at exports . . ." Guthrie said referring to the small insulators and fuses the company sold across the Tasman in competition with the Australian-made product and fuses from Red China.

"Moderate" succes in Australia emboldened the company to look further afield – Hong Kong. Not only did the products suit the market, but the company was able to deliver in small quantities on a regular basis.

And because it was able to do what the customer wanted in the way of modifications, it soon built up a substantial business with the China Light and Power Co of Hong Kong ("to the extent, even, that they used our patterns and reference numbers when calling for tenders for insulators," Guthrie said).

A foray into Trinidad followed. An agent there was able to help the company to gain a substantial share of the market for the Trinidad and Tobago Electricity Commission Insulators and Associated Equipment.

Cable sealing ends were a real success, leading the company to the conclusion it had the technical edge over its rivals. Only Britain and Japan were chief opponents in the line.

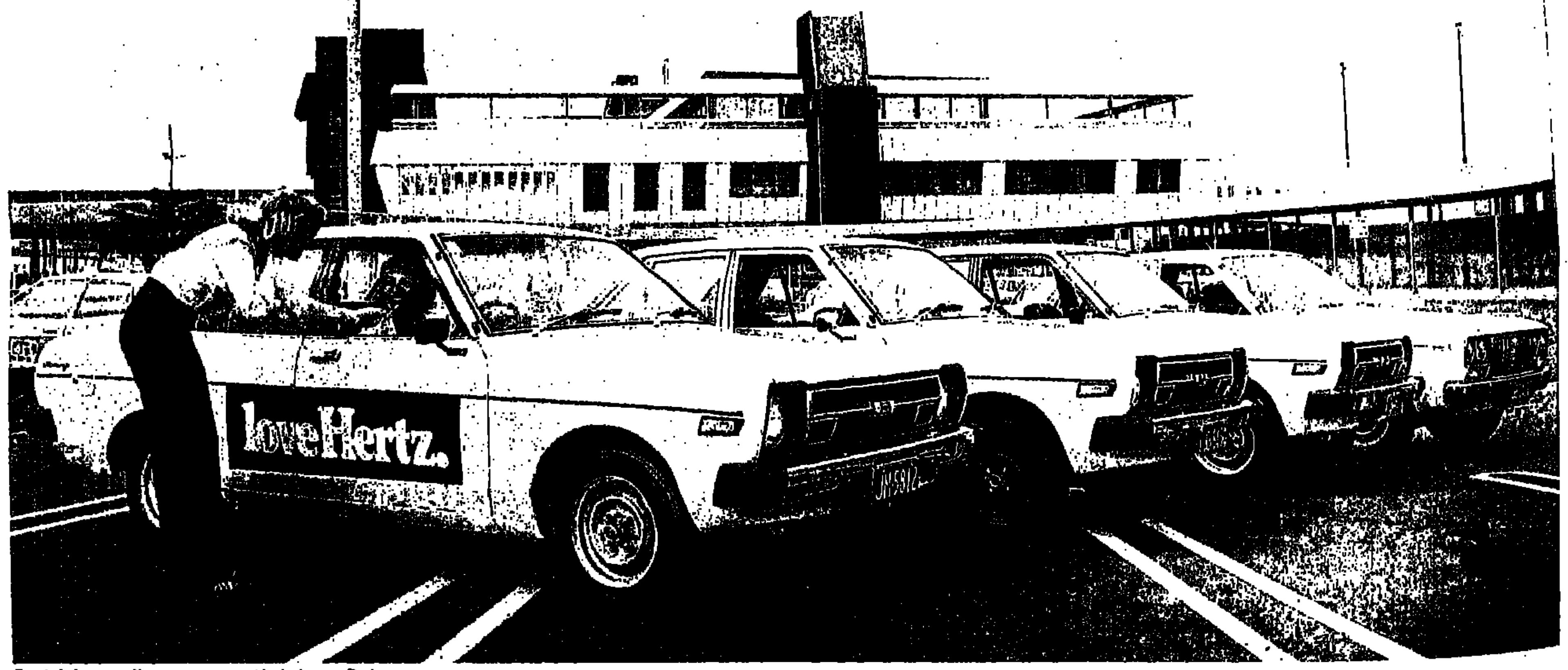
Guthrie recalls with pleasure an Australian senior executive telling him the company's product was far superior to the Australian equivalent. "Yours," he said, "are a little bit more expensive, but they are far better."

"This was generally our approach to export – that we were not trying to undercut our competitors on prices. We were trying to find that place in the market which needed our superior product." Guthrie said.

Guthrie emphasised that an exporter has to get to know the market – know it, find out what the opposition is doing, why the potential customer is buying what he is buying, mo'ify the product to meet his needs.

"Essentially that was the NZI formula for success in exports – give the customer what he wants."

Company Cars. The smart money's riding on Datsun total economy.



For total operating economy, Hertz loves Datsuns

You know it. It costs big money to operate a fleet of company cars and light commercial vehicles. And all too often it's good money going after bad.

As fuel and maintenance costs soar, uneconomical, unreliable motor vehicles carve into profitability, relentlessly frustrating your efforts to improve business efficiency, in all areas.

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Whether you run six vehicles or 60, each one has a job to do. If it's constantly in for repairs and maintenance, you've got an absenteeism problem you can ill afford.

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Even the most hard-headed businessman wants some pleasure in his driving. That's why, for all Datsun's dedication to total operating economy, no effort is spared to make every Datsun vehicle a model of comfort, convenience and enjoyable handling.

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Current, new models:

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Datsun 200B ZX Sedan (auto/manual)
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Datsun Sunny 1400 SGX Coupe (manual 5-speed)
Datsun Sunny 120Y Sedan (auto/manual)
Datsun Sunny 120Y Wagon, Van (manual)
Datsun Cherry 100 A Sedan (manual)

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Taximen of Auckland's Western Cabs Society hail the unique big-car economy of Datsun's 220C Diesel

Datsun One-tonne Utility (petrol)
Datsun One-tonne Utility (diesel)
Nissan Patrol 4 Wheel Drive
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MASUS 5610

Insurance

Chubb boss queries credit card security

by John Sloan

THE complete "cashless society" will never come to New Zealand, according to Pat Keppel, new managing director of Chubb New Zealand Limited.

Keppel maintained that "credit cards and bank-type cards will be used only by a section of the shopping population and many people will continue to pay in hard cash".

The accelerating use of credit cards creates a new security risk for retailers whose only record of the transaction could be a little slip of paper.

Keppel queries "what happens if they lose that? They may have no other proof of the transaction and many people would never query not being charged for their purchase".

Keppel argues that retailers must give their records of credit card purchases the same physical protection as they should for hard cash.

Keppel is the first New Zealander to head Chubbs here. This reflects the group's intention to have local people heading local companies.

Down-to-earth security assessments come easily to Keppel, who has spent 22 years in the field. He started as a police cadet in 1958, rising through the ranks to be appointed national crime prevention co-ordinator in 1973.

Keppel left the Police Department to join Chubbs in 1973, gaining experience in the areas of fire protection, lock services and bank security.

He said that the Industry Security Association "earnestly supports the police efforts to deal with the criminal elements and they are very appreciative for the assistance the police can provide in return".

Chubbs supports other industry groups, specially the insurance fraternity, in endeavouring to control the total cost of crime to the country.

Chubbs has been established in New Zealand since 1961 and employs a staff of 150.

Many are employed in the company's Porirua factory, which makes safes and fire protection cabinets for paper and computer records to international specifications. Many are being exported.

The world-wide turnover of the Chubb Group is $501 million. The local branch is a subsidiary of the Australian company, which has a turnover of $23 million.

Keppel said: "Proportionate to size, this country contributes a substantial proportion to the turnover.

Keppel had analysed figures to show that, over the 10 years, crimes against property have shown an alarming increase. He said many businesses had a lax attitude toward their security until "they were hit".

The emergence of the micro-processor and "chips" is fast becoming an aid in the design and capability of computers for use in the security field. It also allows the security industry to provide equipment at reasonable price and costs of "add-on" items would be reduced he said.

Noting that many companies were becoming dependent on mini-computers and word processors, Keppel commented: "In spite of their dependence they do not give sufficient thought to the protection of the vital stored information and many of them are wide open to crippling losses in the event of fire or vandalism".

It is possible to quickly replace machines, but the same cannot be said for information, nor can one adequately insure to compensate for the loss.

Keppel saw the security industry as providing tremendous growth in the future, but it remains a highly competitive business.

He said the explosive growth of the industry attracted many companies into the field who provided cheap products but did not have the long term capacity to provide an on-going service, usually dropping out of the field leaving disgruntled customers.

Keppel said that Chubbs provided protection to people who wished to remain in business and were prepared to pay the costs of adequate security. He said Chubbs could not prevent the incidence of crime, but at least companies can avoid becoming a statistic.

Keppel, 37, is married with two young daughters, and maintains his 188cm 95kg frame "trim" by jogging.

Hard-nosed broking for energy projects

by John Sloan

THE enormous financial and resource risks inherent in the high technology of modern energy development and exploration were recently outlined in Auckland by chairman of the Sedgwick Forbes Bland Payne Group, Neil Mills.

Sedgwick Forbes, one of the largest insurance brokers in the world, has a New Zealand operation that already has considerable experience in the complex energy field.

Mills, speaking at a seminar organised jointly by the Auckland Manufacturers' Association and Sedgwick Forbes, suggested that the new technologies were thoroughly understood by only a few people and were difficult to communicate to the lay person, "When people are pushing out the frontiers of knowledge at an ever accelerating pace, they are encroaching on things unknown, so the risks are that much greater," he said.

Illustrating the extent of potential hazards, Mills noted the possible social consequences and the huge investment risks. Lengthy delays in machinery repair following an accident, unknown aspects of some chemical reactions subsequent to a loss of power or cooling water, a delay in comprehension of a product's side effects were some of the examples of specialised risks engendered by energy development.

Energy Minister Bill Birch, earlier in the seminar, discussed plans for exploration and controlled use of the country's energy resources. Mills agreed with the minister that New Zealand's energy strategy would open up new opportunities in the next two decades.

"The changes which are envisaged in the energy programme will not be made for the sake of change, but necessity," Mills said. "They force on the country very big changes in thinking and for many, very big changes in lifestyle."

They also expose the country to the risks of capital investment and social consequence that must be fully identified and planned for at an early stage.

This requires a level of knowledge and understanding by insurance underwriters that matches the technology involved. Mills said: "Speed of change does not sit easily with one of the fundamental requirements of established insurance techniques, namely an extended period of experience on which to base reliable underwriting judgments.

"For example, this country will shortly be embarking on an ambitious programme to convert natural gas via methanol into synthetic petroleum by a process which has never been tried in a full scale plant before. Underwriters will need to be briefed on the potential hazards as they appear and then be persuaded to give it a try."

Mills commented on the novelty of science-based technologies and the difficulty of communiction tending to induce hesitation amongst many underwriters. "This can only be clearly a way if specialist knowledge can be made available by someone speaking the language of insurance."

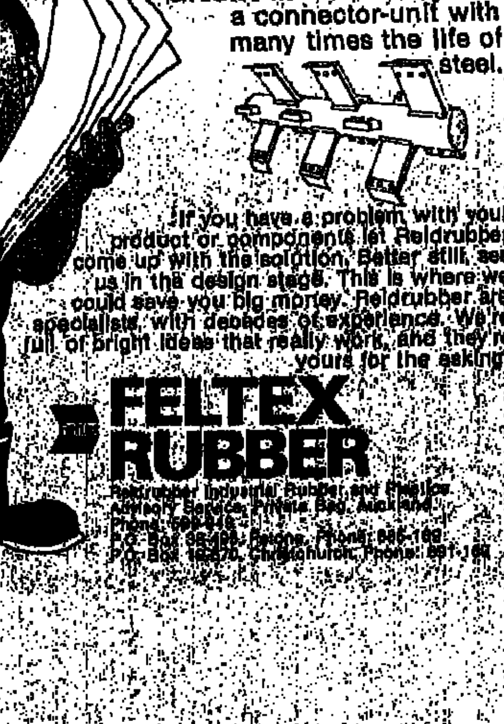
The role of big brokers is to design and negotiate protection at all levels from the major investments in plant and systems to smaller suppliers and distributors.

Such catastrophic risks cannot be insured totally here and the bulk of the insurance is carried by overseas underwriters.

But with the Government's emphasis on encouraging the maximum retention of premiums within New Zealand, some hard-nosed broking will be done.

The classic broking problem might emerge; the market rate established by experienced overseas underwriters might be lower than the rate desired by the insurers here. So a compromise would need to be hammered out to permit local insurers to share in the vast new multi-million complexes coming our way.

The retention here will be peanuts compared to the total sums insured at risk. The international insurance market alone has the capacity to absorb and spread such massive catastrophic risks on a global basis.



Dairy industry churns up a butter strategy

by Belinda Gillespie

THE Dairy Board deliberated long and hard before raising the price of butter last week. From April 1, the board took over the local market and the price, previously depressed for political reasons, was the first thing to change.

Changes in presentation and service in the butter market are inevitable, according to John Goldfinch, manager of the Dairy Industry Information Service.

For 40 years the Government had fixed the price of butter, ensuring that producers for the domestic market got returns as good as export producers.

In the last few years, because of considerations such as the effect of the butter price on the Consumer Price Index, butter prices had been fixed at levels well below the average export return, and the deficit made up from the Public Account.

Before the latest price rise, the board had to consider both consumer and producer interests, with a view to getting the best return in the long run.

The level of offtake, in particular, had to be considered in setting the new prices. If a price rise causes a fall in consumption, more butter has to be exported – and difficulties with the British market, which yields the best return for the producer, mean it will have to be sold at relatively low prices elsewhere.

So the new price was not only on the basis of what the market will stand but "the sum will be done in the light of various considerations", Goldfinch said.

An increase of 10c up to 75c for 500g had been suggested last month by Dairy Board chairman Ken Mehrtens as being the price the local market could absorb.

The Government had paid out $7 million to help prevent an immediate over-large increase in butter price to its true cost of 93c for a 500g pack. But with the end of the subsidy a steady rise to this level is inevitable.

Butter, from now on, enters the same price area as margarine, which at Woolworths sells for 99c a pack, and on special at about 89c.

Eventually, reflecting its true energy cost as an animal product, compared with the cheaper vegetable-based margarine, butter must overtake margarine to become the expensive food it is in other parts of the world – about $1.20 for 500g in Britain and up to $1.50 in other parts of Europe.

The Dairy Board, along with other dairy interests, has hedged its bets by taking a shareholding in ASPAK, the Auckland-based producer of Meadowlea margarine, which enjoys second share of the New Zealand market.

The board's stake in margarine does not express a lack of confidence in butter, but "its belief that the competitor has come to stay".

Combining vegetable and animal fats to produce an item with the spreadability of margarine but the flavour of butter, has not been tried in New Zealand.

The Australian Dairy Corporation's product, Dairysoft, was such a mixture, but it hadn't been a great success and the raw materials had to be subsidised.

The board regards it as a "doubtful" proposition here as it does not see it as a way to getting a meaningful quantity of butter sold.

Flavour remains the major selling-point of butter, one which margarine has never been able to match, despite its other advantages.

The Margarine Act was changed in 1973 to allow the addition of yellow colouring to polyunsaturated margarine, putting it on New Zealand tables as a spread for the first time.

Since then, vegetable oil consumption has risen by 5g per head a day – cancelling out the drop in fat intake due to a decline in butter consumption, which had already begun before margarine was introduced.

Ken Mehrtens, talking to dairy farmers round the country last month, said the imminent price rise in butter meant that changes in its presentation and distribution were essential.

In most areas, except Taranaki and parts of the South Island, the dairy companies distribute their own product. He invited the industry to put forward its own proposals to improve butter's chances as it enters an era of stiff competition.

Butter consumption has been almost static for the last two years, and the industry seemed to accept the necessity of change in order to halt a decline.

Goldfinch said the effect of Government price controls had disadvantaged the industry in their effect on the manufacturers and distributors of butter.

They had tended to keep margins at the lowest possible levels at all stages of packaging and handling the product. The tendency had been to "beat the average" at all times – in a territory where one brand was dominant everything possible was done to cut costs, so that the service and presentation angle was invariably minimised.

The proposed changes to butter marketing are still a secret – though they would be "nothing dramatic".

Butter is not likely to be sold in tubs for example – despite a recent suggestion "which had no connection with the board's collective view", Goldfinch said.

Margarine maintains false aura of health

by Belinda Gillespie

THE medical profession forced a change in the Margarine Act in 1973 because it thought that more polyunsaturated oil would reduce New Zealanders' blood cholesterol levels. But it has not been proved that switching from one to the other does the trick, said Heart Foundation director David Hay.

In fact, butter and margarine are the same in calorie value, though slimmers cling to the belief that butter is more fattening.

The advent of easy-to-spread margarine, with its unwarrantedly healthy image, has accelerated the trend away from butter.

But changes in food habits such as less home-baking, fewer packed lunches, and less food preparation at home generally, had already initiated the trend.

The Dairy Board's own efforts to increase cheese consumption, which has almost doubled since the big campaign began in 1975, have possibly resulted in a further drop in butter sales.

New Zealanders get about 40 per cent of their energy needs from fat in the diet. This level has been steady for 50 years and matches similar countries, including Australia, Britain and the United States.

Dramatic increases in the consumption of icecream and cheese, both rich sources of dairy fat, seem to have been compensated for by a swing away from butter, while overall vegetable oils have nibbled only slightly at total fat consumption.

Social bans encroach on smokers' tenacity

by Belinda Gillespie

THE only thing ex-smokers have in common is their former habit. What makes people give up smoking remains as obscure as what made them take it up in the first place.

Ex-smokers, according to a local study, are those who have smoked a minimum of one cigarette a day for more than a year, who no longer smoke and have not done so for at least three months.

Just over a third of the ex-smokers surveyed had health reasons for giving up. These included instructions from the doctor, fear of future ill-health, symptoms such as coughing or phlegm and decreased physical fitness.

One of the most frequent reasons given was "loss of interest in smoking or thinking of it as a silly habit".

Only a few gave up because of unfavourable publicity, and even fewer for financial reasons. Few smokers were influenced by family pressure, had their consciences smitten by setting a bad example to their children, or worried by difficulties in smoking at work.

The results here conflict with studies elsewhere, which have tended to show about two thirds giving up for health reasons. The authors reasoned that it is difficult to compare studies because of the different options open to the respondents. They still believe "a significant number of individual cigarette smokers will respond to clearly demonstrated evidence that their lungs have been damaged by smoking".

Campaigns to reduce ill-health with which smoking is associated depend on persuading people either not to start smoking, or to give it up. The writers call for a continued appraisal of the reasons given for stopping smoking, in order to plan anti-smoking campaigns.

The more people give up smoking, the more tobacco consumption seems to stay the same.

In an analysis of the 1976 census, which for the first time included a question on smoking habits, National Heart Foundation director David Hay said that "cigarette smoking in this country is probably less prevalent than in the past, and the figures compare favourably with those of other countries". He added that the high levels of smoking among young people, particularly women, is a major health problem.

There was no base for comparison for the census results, apart from one small study which showed that 56 per cent of men and 30 per cent of women smoked. But on the basis of a decline in tobacco consumption between 1970 and 1973, Hay suggested there had been a fall in cigarette smoking. He also pointed to the large number of ex-smokers – 353,627, or 16.1 per cent on census day – and suggested that those responsible for health education could take heart from the number.

Doctors are particularly good at giving up smoking. Between 1962 and 1973, the percentage of smoking male doctors dropped from 35 to 17. Of those who gave up, 64 per cent did so for health reasons. Hay used this as an illustration of what could be achieved by education, and said that the same degree of reduction should be possible in other groups.

Despite Hay's optimism, tobacco consumption is on the rise again after its short period of decline. Figures published last year showed that overall it rose from 2.2kg per head in 1960, to 2.5 kg in 1977. Young people and women, the Planning Council confirmed in its report "The Welfare State", appear to be increasing their levels of smoking.

Despite the recent upturn in smoking, in the long run the tide of tobacco consumption seems bound to turn, if trends here follow those in other developed countries.

There are no by-laws or statutes here specifically prohibiting smoking, except where it is considered a fire or hygiene hazard. Restrictions on smoking on public transport vary from one local council to another. The Government favours voluntary restraints by the public, not compulsory bans.

Although not legally enforceable, bans in restaurants, bars and buses are steadily encroaching.

The television screen has become an effective vehicle of anti-smoking propaganda, and there are considerable restrictions on the advertising of cigarettes. As well as recommending the "stepping up" of health education, the Planning Council recommended financial disincentives to smoking: the advertising of tobacco to be made non-tax-deductible; tobacco taxes to be increased; the higher taxes to be based on value not volume.

It all adds up to a climate which undermines the social acceptability of smoking at the same time as it becomes financially undesirable. In the United States a sales volume increase of only 0.3 per cent between 1977 and 1978 "may well prove to be the last gain in volume that the cigarette producers will ever see," according to *Business Week*. "Starting in 1979, cigarette sales in the United States seem bound to begin a long, slow decline."

Tobacco manufacturers managed to keep their market growing slowly over the 30 years since lung cancer was first linked with smoking – at first by clouding the issue with their own statistics – then by tying an "aura of health" to their own low-tar brands. At the same time, they floated their product on a multi-million dollar promotion budget.

Efforts to make smoking socially unacceptable have hit the producers harder than the health issue, said *Business Week*, quoting one tobacco executive who said, "there is no industry loyalty - all smokers really want to quit."

"Harold's only waiting for the rain to stop, then he's going to rig up a solar heating system."